The Papers of Eugene Meyer (mss52019)

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EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD
GLASS BILL – MISCELLANY
1933

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date Jan. 28,1933

To Governor Meyer

Subject: Changes in Glass Bill

From Mr. Wyatt, General Counsel.

recommended but not made.

2—8495

Dear Governor Meyer:

I am handing you herewith copies of letters which you addressed to Senators Glass and Norbeck, respectively, under dates of May 7 and June 3, 1932, respectively, calling their attention to certain important changes which you thought should be made in the Glass Bill, S. 4412, and also a one page summary of the amendments suggested in your letter to Senator Glass.

The only one of these suggestions which has been adopted is that allowing five instead of three years for the divorce of affiliates.

I invite your attention especially to the fact that, in the form in which it passed the Senate, the Glass Bill would repeal the amendment of May 19, 1932, to section 13 of the Federal Reserve Act, which authorizes Federal reserve banks to accept debentures or other such obligations of Federal intermediate credit banks as collateral security for advances to member banks.

If the House Committee on Banking and Currency holds hearings or requests recommendations on the Glass Bill, you may desire to call this matter to its attention.

Respectfully,

Walter Wyatt

Walter Wyatt,
General Counsel.

Letters attached.

CONFIDENTIAL L-17

February 9, 1933.

RECOMMENDATIONS OF THE FEDERAL RESERVE BOARD
WHICH HAVE NOT BEEN ADOPTED IN THE GLASS BILL.

In its letter of March 29, 1932 addressed to Senator Norbeck, Chairman of the Committee on Banking and Currency of the United States Senate, the Federal Reserve Board made a number of recommendations with reference to the provisions of the Glass Bill, S. 4115. Some of these recommendations have been incorporated in the revised bill, S. 4412, and others have not. There are summarized below the recommendations contained in the Board's report of March 29, 1932, which have not been adopted substantially in the bill, S. 4412, in the form in which it was passed by the Senate on January 25, 1933. No mention is made of provisions of the bill which are substantially as recommended by the Board.

(Page and section numbers refer to the bill S. 4412 as it passed the Senate on January 25, 1933, unless otherwise indicated, and the bill in this form is referred to in this memorandum as "the present bill".)

SECTION 2.

Definition of the term "affiliate". (Pages 2,3)

The Board's recommendations on this subject have been incorporated in the present bill. It may be noted, however, that certain additional changes in the definition of the term "affiliate" have been made. The provision that this term shall include an organization of which a majority of the members of its executive committee are directors of a

member bank has been stricken from the present bill. Another change is the sub-division in the present bill of the several classes of institutions defined as affiliates so as to make a distinction between "affiliates" generally and "holding company affiliates".

SECTION 3.(b)

Voting by groups or chains in elections of Federal reserve bank directors. (Pages 4,5).

The Federal Reserve Board recommended the omission of a provision (contained in section 4 of S. 4115) which prohibited a bank which belongs to a group or chain or which is not controlled by local residents from voting for Federal reserve bank directors. The present bill provides that when two or more member banks are affiliated with the same holding company affiliate only one of such banks may participate in the nomination or election of Federal reserve bank directors.

In connection with its recommendation on this subject, the Board said that this section "prohibits banks that belong to a group or a chain from voting for Federal reserve bank directors. The wording of the section is such as not to confine the prohibition to group and chain banks, however, but to include all banks that are not controlled entirely by locally resident stockholders. Since the stock of many important banks is widely owned throughout the country, this might restrict the voting privilege to smaller and less important banks that are owned by local stockholders. It is to be feared that this section would bar from participation in the selection of Federal reserve directors many of the

better managed banks."

SECTION 4.

Distribution of earnings of Federal reserve banks. (Page 5)

The Federal Reserve Board recommended that the Secretary of the Treasury be authorized in his discretion to use the franchise tax received from Federal reserve banks for investment in obligations of the proposed Federal Liquidating Corporation, but the present bill provides that all net earnings of a Federal reserve bank after payment of dividends, claims and expenses shall be paid into the surplus fund of the bank.

In discussing the corresponding section of S. 4115, (Section 5), the Board said: "This section would amend the first paragraph of Section 7 of the Federal Reserve Act so that, after the payment of expenses and dividends, all of the net earnings of a Federal reserve bank over and above any amounts necessary to restore its surplus to the amount on December 31, 1931, would be paid to the Federal Liquidating Corporation. The amendment is also worded in such a way as to prevent the payment of any dividends out of surplus and to prevent the payment of dividends whenever the surplus of a Federal reserve bank is less than it was on December 31, 1931.

"A different method of financing the liquidating corporation is proposed and will be discussed under the appropriate section. For this reason a modification of Section 5 is suggested which would not change the provisions of the present law in regard to the surplus of the Federal reserve banks, but would authorize the Secretary of the Treasury to use the franchise tax received from the Federal reserve banks for the purpose

of supplementing the funds of the corporation."

SECTION 5(b).

Reports of affiliates of State member banks. (Page 6)

The Board stated in its letter that "With respect to affiliates, the Board believes that important reforms to be accomplished at the present times are the granting of power to the supervisory authorities to obtain reports and to make examinations of all affiliates of member banks and the prescribing of limitations on the loans that a member bank may make to its affiliates. The Board realizes that many evils have developed through the operation of affiliates connected with member banks, particularly affiliates dealing in securities."

The Board also recommended that, in dealing with affiliates, the following principles be observed: "(1) To require them to make reports and to submit to examination at the discretion of the Board or the Comptroller; (2) to limit the loans that can be extended to an affiliate by a member bank; and (3) to prohibit the tying up of capital stock of an affiliate with the capital stock of a member bank. In favoring these limitations, the Board has in mind that it may not be desirable to abolish all the existing relationships between member banks and their affiliates, but that it is desirable to protect the operations of the member banks from being unduly influenced by their affiliates. Recent experience has demonstrated that operations of the affiliates at times have unfavorable effects on the condition of member banks."

The Federal Reserve Board accordingly recommended that reports

of affiliates of State member banks "be required only when deemed necessary by the Federal Reserve Board." The present bill provides that a State member bank shall obtain from each of its affiliates, other than member banks, and furnish to the Federal reserve bank and the Federal Reserve Board, not less than three reports of condition each year on dates identical with the reports of the affiliated member bank and such additional reports as the reserve bank or the Board may deem necessary. The provision requiring such reports to be made is mandatory; but they are required to contain only such information as, in the judgment of the Federal Reserve Board, shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank. The reports of affiliates are to be published by the bank under the same conditions as govern its own condition reports.

(Substantially the same provisions are contained in Section 24 of the present bill with reference to reports of affiliates of national banks, except that the reports are made to the Comptroller of the Currency instead of the Federal Reserve Board.)

SECTION 5(b).

Dealings in stocks and investment securities by State member banks. (Page 8)

The present bill contains a provision to the effect that State member banks shall be subject to the same limitations and conditions as are national banks with respect to the purchase, sale, underwriting

and holding of investment securities and stock. There was no such provision in S. 4115; but the Board recommended that the provision in Section 15 of S. 4115, which restricted dealings in investment securities by national banks, be omitted entirely.

(The provisions on this subject regarding national banks are in Section 15 of the present bill.)

SECTION 5(b).

Divorce of stock of State member bank from stock of other corporations. (Page 8)

The present bill contains a provision to the effect that, after five years from the passage of the Act, no certificate of stock of a State member bank shall represent the stock of any other corporation except a member bank, nor shall the ownership or transfer of the stock certificate of such a bank be conditioned upon the ownership or transfer of a certificate of stock of another corporation, except a member bank. S. 4115 contained no such provision regarding the stock of State member banks. There was a similar provision regarding the stock of national banks (Section 17 of S. 4115), which would have become effective immediately, and the Board recommended that it be retained but that it be made effective after three years. The Board also recommended in connection with its discussion of affiliates that the bill "prohibit the tying up of capital stock of an affiliate with the capital stock of a member bank."

(The provision on this subject applicable to the stock of national banks is found in Section 17 of the present bill.)

SECTION 5 (b).

Right of an affiliate of a State member bank to vote stock held by it in such bank. (Page 8)

Under the present bill, each State member bank affiliated with a holding company affiliate is required to obtain from such affiliate, within a period prescribed by the Board, an agreement that the affiliate will be subject to the same conditions and limitations with respect to voting stock in the bank as are applicable in the case of holding company affiliates of national banks (under Section 18 of the bill); and for failure so to do the membership of the State bank in the Federal Reserve System may be forfeited. If the Board revokes the voting permit (required by Section 18) of any holding company affiliate, the membership of any State member bank affiliated with it may be forfeited.

Section 20 of S. 4115 contained provisions with reference to the conditions under which holding company affiliates of national banks may obtain permits to vote stock owned by them in such banks, but these provisions were not made applicable to State member banks. The Board recommended a number of changes in these provisions, and that substantially the same provisions, with the changes recommended, be made applicable also to affiliates of State member banks. The provisions applicable to affiliates of national banks, however, (to which affiliates of State member banks are also subject) have not, except in a few respects, been made to conform to the recommendations of the Board on the subject.

(The provisions referred to are described below more in detail in Section 18 hereafter.)

SECTION 5(b).

Examination of the affiliates of State member banks. (Page 9)

The Federal Reserve Board recommended "in order that suitable provision may be made for the examination of affiliates of State member banks when deemed necessary" that such examinations be authorized to be made when deemed necessary in order to inform the Board or the Federal reserve bank of the relations between the affiliate and the member bank and the effect of such relations; that the examiner be authorized to examine officers and employees of the affiliate under oath; that the expenses of the examination be assessed, in the discretion of the Board, against the affiliate; and if not paid by the affiliate, against the member bank; and that a refusal by the affiliate to permit an examination or to give necessary information be penalized by a fine against the member bank of $100 per day.

The present bill requires such examinations of affiliates of State member banks to be made in connection with the examinations of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations; the expenses of such examination may, in the discretion of the Board, be assessed against the bank examined; and, in the event of the refusal of the affiliate to give information or to permit an examination, or in the event of the failure of the bank to pay the cost thereof, the membership of the bank may be forfeited. The provisions recom-

mended by the Board as to examinations under oath, payment of expenses of examination by the affiliate, and penalties of $100 a day, are omitted.

(Provisions with reference to examinations of affiliates of national banks are contained in Section 25 of the present bill.)

SECTION 6.

Offices of the Federal Reserve Board. (Pages 10-13).

The Federal Reserve Board recommended that if the authority of the Secretary of the Treasury, contained in existing law, to assign quarters to the Federal Reserve Board is repealed, "it would seem that the Board should be authorized to purchase or construct a building for its own use and that, in the interest of convenience and efficiency, space should be provided in such building for the Comptroller of the Currency and his staff and for the proposed Federal Liquidating Corporation." The Board, however, is not given authority to purchase or erect a building in the present bill, and the provision of existing law authorizing the Secretary of the Treasury to assign offices to the Board has been omitted.

SECTION 7.

Open Market Committee. (Page 13)

The provisions of Section 10 of S. 4115 creating the Federal Open Market Committee have, with some changes, been retained in the

present bill.

The Board said in its letter "With respect to the section of the bill dealing with open market operations, the Board calls attention to the fact that there is already in existence an open market committee on which each of the Federal reserve banks has representation. This has come about as the result of natural development. The Board believes that it would be inadvisable to disturb this development by crystalizing into law any particular procedure. The Board believes that nothing further is necessary or advisable at this time than an amendment clarifying its power of supervision over open market operations of the Federal reserve banks and their relationships with foreign banks, as set out in the memorandum attached."

The Board suggested as a substitute for the provisions on this subject certain amendments to Section 14 of the Federal Reserve Act: (1) clarifying the Board's power over open market operations, and (2) improving and clarifying one of the provisions of the bill with respect to the considerations which should govern purchases and sales on the open market, so as to apply not only to purchases and sales "of paper" but to any open market transactions. The first of these suggested amendments is not incorporated in the

present bill and while the phraseology of the provision with respect to the considerations governing open market operations has been changed, it has not been altered in the manner suggested by the Board.

The Federal Reserve Board pointed out that the statement in Section 10 of S. 4115 that "No Federal reserve bank shall engage in open market operations * * * except after approval and authorization by the Committee", appears to be too rigid. The Board said that this provision "deprives an individual reserve bank of all authority to make purchases in the open market except after obtaining the consent of both the Board and the committee. The open market committee would have no authority to act without approval of the Board and the Board would have no authority to act without approval of the committee. This would result in the possibility of obstruction of any system program and would tend to make the operation of the Federal reserve system less timely and less efficient." In the present bill the provisions referred to have been changed slightly in form, but little in effect.

SECTION 7.

Federal Liquidating Corporation. (Pages 14-28).

The Board said in its letter that it "is in favor of establishing a liquidating corporation, but proposes to limit the scope of its operations to member banks and suggests a different method of financing it, together with certain changes in the provisions for its administation."

Accordingly, the Board suggested in lieu of the provisions of section 10 of S. 4115 on this subject, a proposed substitute which provided a number of material changes. In submitting this substitute the Board said: "The substitute would confine the benefits of the liquidating corporation to member banks. Provision is made for assistance to nonmember banks in the Reconstruction Finance Corporation Act, and it would render membership in the System more attractive if the benefits of the Corporation were confined to member banks. In the substitute it is proposed that $100,000,000 of the capital of the liquidating corporation be subscribed by the Treasury. This subscription to capital may be considered as being derived from the franchise tax previously paid to the Treasury by the reserve banks. In addition, it is proposed that the corporation be authorized to issue debentures up to twice the amount of its subscribed capital and that the Federal reserve banks be given authority to purchase those de-

bentures up to one-fourth of their surplus. This is not a propitious time to ask the member banks to contribute to the liquidating corporation. The banks are going through a very difficult period and to tax them for this purpose would be a considerable hardship on them.

"In order to make the operations of the corporation more easily manageable, it is proposed that the directorate be comprised of five members instead of fourteen as proposed in the bill."

Some of the suggestions of the Board mentioned in the above quotation have been adopted in the present bill. The provisions of the present bill confine the benefits of the liquidating corporation to member banks (paragraph (a)) and debentures may be issued by the corporation up to twice the amount of its capital (and this would seem to mean "subscribed capital", though it is not clear) (paragraph (m)). The directorate of the corporation is to consist of five members (paragraph (b)). The other recommendations of the Board, mentioned in the above quotation, namely, as to capital stock and the purchase of debentures of the corporation by Federal reserve banks, have not been adopted.

The present bill provides for three classes of capital stock; Class A stock, to be subscribed by member banks in an amount equal to one-fourth of one per cent of their deposits; Class B stock, to be subscribed by the Federal reserve banks in an amount equal to one-fourth of their surplus (paragraphs (d) and (e)); and stock in the amount of $125,000,000, to be subscribed by the United States (paragraph (c)). One-half of the

Class A stock (paragraph (e)) and of the Class B stock (paragraph (d)) is apparently required to be paid in on the organization of the corporation and the remainder is subject to call (paragraphs (d) and (e)). None of the stock subscribed by the United States is to be paid in on organization, but is subject to call by the board of directors of the corporation; and $125,000,000 is authorized to be appropriated for payment for the stock (paragraph (c)).

In addition to the points mentioned above, there are a number of other differences between the provisions of the present bill and the Board's suggested substitute. Many of these are differences of relatively slight importance or of language only. Others, however, are more substantial and those which appear to be material will be noted here:

The Board's suggested substitute provided that debentures issued by the corporation should be guaranteed by the United States and paid by the United States if the corporation should be unable to pay them, but this amendment has not been adopted.

The present bill (paragraph (b)) contains a provision (not found in the Board's proposed substitute) that no member of the board of directors of the corporation (consisting of the Comptroller of the Currency, a member of the Federal Reserve Board and three members appointed by the governors of the Federal reserve banks) shall receive any additional compensation for his services as such member.

Both under the present bill (paragraph (h)) and the Board's proposed substitute, an officer or employee of the United States may be an officer or employee of the corporation; but the present bill does not specifically authorize an officer or employee of the United States to be a director of the corporation as does the Board's substitute.

The present bill (paragraph (i)) requires the board of directors to administer the affairs of the corporation fairly and impartially and without discrimination among member banks and to extend to member banks such accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks. This provision was not contained in the Board's substitute.

The present bill, in providing for Class A stock to be subscribed by the member banks and Class B stock (paragraphs (d) and (e)) to be subscribed by Federal reserve banks, contains a number of provisions with reference to the attributes of this stock and the manner in which Class A stock shall be increased or decreased according to increases or decreases in the amount of deposits of member banks or in the number of member banks (paragraph (f)).

The Board's proposed substitute authorized the dealing in real or personal property to the extent necessary or convenient for the transaction of the corporation's business, but this provision is not included in the present bill.

The present bill does not contain the provision suggested by the Board that the corporation be authorized to appoint

its employees without regard to the provisions of other laws applicable to the employment and compensation of officers and employees of the United States.

The present bill contains a provision (not found in the Board's proposed substitute) for a valuation committee (which includes the receiver, a representative of the insolvent bank and a third member, selected by these two, but does not include a representative of the corporation). Loans on and purchases of the assets of the closed member banks by the corporation are to be made on the basis of valuations made by this committee (paragraph (j)).

The present bill does not contain a provision (suggested by the Board) that in no case shall the corporation make any loan or purchase any assets in an amount which shall not fully protect the corporation.

The present bill requires the corporation to pay to the receiver any excess realized upon the assets purchased (paragraph (j)), but does not contain such a requirement as to an excess realized upon assets on which a loan has been made (as provided in the Board's substitute.)

The present bill provides for the deduction of a liquidation fee of 8% of the amount realized upon the assets purchased (paragraph (j)); whereas the Board suggested the deduction of the expenses of

liquidating the assets and an amount equal to interest at the rate of 6% per annum, and required that all loans made by the corporation to receivers bear interest at 6% per annum.

The present bill contains a provision authorizing the corporation to purchase the assets of banks in the hands of receivers on the date of the organization of the corporation on the same general terms and conditions as are applicable in the case of banks closed after that date (paragraph (k)). This provision appears to be unnecessary; and the same effect is accomplished by the provisions of the Board's proposed substitute, although an express provision of this kind is not found in the substitute.

The present bill also recognizes the right of the corporation to enter into negotiations to secure the reopening of closed member banks (paragraph (k)). Express authority for this purpose is not given in the Board's proposed substitute.

SECTION 8.

Loans on member banks' collateral notes. (Page 28)

The present bill providesthat, if a member bank, while indebted to a Federal reserve bank on a fifteen day collateral note and despite a warning of the Federal reserve bank or of the Federal Reserve Board, increases its outstanding loans for the purpose of purchasing or carrying stocks or investment securities (except obligations of the United States), its note shall be immediately due and payable and the member bank shall be ineligible to borrow on such fifteen day notes for such period as the Federal Reserve Board shall determine.

The Federal Reserve Board recommended that the provisions of Section 11 of S. 4115 on this subject be omitted and that an amendment be adopted increasing the maximum maturity of advances to member banks on their promissory notes secured by eligible paper from 15 to 90 days; but, except for the omission of two provisions of S.4115 to which the Board objected, the Board's recommendationson this subject have not been adopted.

In this connection the Board said: "The Board is not in sympathy with the provisions of the bill discriminating against member bank collateral notes. Experience shows that the particular instrument on which Federal reserve credit is obtained is not an adequate test of the use to be made by the member bank of the proceeds of the credit and that an attempt to control speculation through restrictions on member bank collateral notes would not be effective in accomplishing the purpose of this section of the bill. Indeed, it probably would interfere seriously with the convenient and economical operation of the system. In this connection, the Federal Reserve Board desires to

renew the recommendation made in its annual reports for several years, that the maturity for which advances may be made to member banks on their promissory notes secured by paper which is eligible for discount be increased from fifteen to ninety days. Such an amendment would be especially helpful to country banks."

The Board also said that the theory underlying this section (Section 11 of S.4115) namely, "that there is a more direct connection between member bank collateral notes and the use of reserve credit for speculative activity than between other borrowings and this activity is unfounded. Member banks borrow on 15-day notes, because of the greater convenience both to them and to the Federal reserve bank; and, if this form of borrowing were prohibited or made more expensive, they would merely substitute the procedure of rediscounting eligible paper without any change in the use of the proceeds. For these reasons, it is believed that this section would make the operation of the Federal reserve banks less efficient and more expensive."

(It may be noted that the present bill amends the seventh paragraph of Section 13 of the Federal Reserve Act; but, due to the insertion of another paragraph in section 13 by the Act of July 21, 1932, the paragraph intended to be amended is not now the seventh paragraph, but the eighth paragraph. Furthermore, the enactment of the present bill would repeal the amendment to the paragraph in question which was contained in the Act of May 19, 1932, and which authorized the use of obligations of Federal intermediate credit banks as security for member bank 15 day notes.)

SECTION 9.

Foreign Transactions of Federal reserve banks (Pages 29,30)

The principal recommendations which the Board made with respect to Section 12 of S. 4115 dealing with the supervision of the Federal Reserve Board over foreign transactions and relationships of Federal reserve banks have been adopted in the present bill. One point of difference, however, may be noted. S. 4115 provided that a report of all conferences or negotiations and material facts appertaining thereto be filed with the Federal Reserve Board in writing and signed by all representatives of the Federal reserve bank attending such conferences or negotiations. The Board recommended the omission of the clause requiring the representatives of the Federal reserve bank to sign the report. The present bill requires that a report of such conferences or negotiations be filed with the Board in writing by a duly authorized officer of each Federal reserve bank which shall have participated therein.

SECTION 10.

Reserves of member banks(page 30)

Section 13 of S. 4115 contained a revision of the provisions with reference to the reserve requirements of member banks; and the Board recommended that these provisions be stricken out and that there be substituted a revision of Section 19 of the Federal Reserve Act in accordance with the recommendations of the System's Committee on Reserves, with some modifications. The provisions of S. 4115 have been omitted from the present bill; but the Board's recommended substitute (with the exception of a provision forbidding a member bank to act as the medium

or agent of a non-banking institution in making collateral loans to brokers or dealers in investment securities) has not been incorporated therein. The present bill does not contain any provision with reference to reserve requirements of member banks.

On this subject the Board stated that it was "of the opinion that the adoption of a system of reserves based on velocity of accounts as well as on their volume as recommended by the System's Committee on Reserves, would be an important step in strengthening the influence that the Federal Reserve System could exert in the direction of sound credit conditions."

The Board also said in this connection, "Any thorough-going revision of Section 19 of the Federal Reserve Act should base required reserves, in so far as practicable, upon the activity of the business handled through each bank, rather than on an arbitrary classification of banks according to location. A proposal submitted in the 'Report of the Committee on Bank Reserves of the Federal Reserve System' embodies a method of calculating required reserves which is believed to be sound in principle and which would make fluctuations in the volume of required reserves exert an influence in the direction of sound credit conditions and would also eliminate many inequitable and unfair features of the present law."

SECTION 11

Loans by Member Banks to Executive Officers or Relatives. (Pages 30-32)

There is a provision in the present bill, not contained in S.4115 and not recommended by the Federal Reserve Board, which forbids a member bank to loan to its executive officers and forbids them to borrow from the bank. It also requires an executive officer of a

bank who borrows from any other bank to make a report thereof to the chairman of the board of directors of his bank; and further, that if a spouse, brother, sister, lineal ancestor or direct descendant of an executive officer of any member bank borrow from such bank, the officer shall make report thereof to the chairman of the board of directors. Violation of this section is made a crime, subject to fine or imprisonment.

SECTION 12.

Loans to or investments in stock of affiliates. (Pages 32-34)

The provisions recommended by the Federal Reserve Board with respect to the limitations upon loans or extensions of credit to affiliates by member banks and upon investments in the stock or obligations of such affiliates by member banks have been adopted substantially in the present bill. One exception to this statement, however, may be noted.

Among the limitations provided by this section is a requirement that a loan or extension of credit to an affiliate of a member bank be secured by collateral having a market value of at least 20% more than the amount of the loan or extension, except loans or extensions secured by obligations of the United States, Federal intermediate credit banks, Federal land banks or paper eligible for rediscount by Federal reserve banks. The Board recommended that an exception to this limitation be made also in favor of loans secured by obligations of the Reconstruction Finance Corporation, but such an exception is not contained in the present bill.

SECTION 13.

Limitation on Investments in Bank Premises. (Page 34)

The Federal Reserve Board recommended a provision that no national bank, without the permission of the Comptroller of the Currency, and no State member bank, without the permission of the Board, shall invest in bank premises, or in stock or obligations of, or in loans to, any corporation owning or holding its bank premises, a sum exceeding the amount of the bank's capital stock.

The present bill adopts in substance this provision recommended by the Board, but the language of the provision is somewhat changed and loans upon the security of the stock of any such corporation holding bank premises are included within the investments to which the limitation applies.

SECTION 14.

Jurisdiction of Federal Courts over cases involving foreign banking transactions. (Page 35)

The present bill contains a provision, not found in S.4115 and not recommended by the Federal Reserve Board, which confers upon District Courts of the United States jurisdiction over any case to which a corporation organized under the laws of the United States is a party and which arises out of transactions involving international or foreign banking, either directly or through the agency, ownership or control of branches or of local institutions in foreign countries.

SECTION 15.

National Banks granted all powers of State Banks. (Page 36.)

The Federal Reserve Board recommended the omission of a provision of Section 15 of S.4115 authorizing a national bank to engage in all forms of banking business permitted by the laws of the State in which it is located to "banks of deposit and discount" organized under

such State laws, except to the extent that the exercise of such powers is forbidden by the laws of the United States. The Board said in this connection that this provision "apparently is intended to enable national banks to compete more effectively with State banks. Its tendency would be to lower the standards of banking in the national banking system to the standard of the State banks, where more liberal powers are granted to State banks by State law."

The provision in question, however, has been retained in the present bill, with the qualification that this section shall take effect five years after the date of the approval of the Act.

SECTION 15.

Dealings in investment securities. (Pages 36-38)

The Board recommended that a number of provisions, contained in Section 15 of S.4115, which referred to dealings in investment securities by national banks and prescribed certain limitations thereon, be omitted from the bill. In this connection the Board said: "This section would make it necessary for member banks to dispose of a large amount of securities at this time which would be very unfortunate. Since it is aimed generally at investments in securities, it is believed that its purpose is covered sufficiently by the proposed substitute for Section 3 of the Bill.

"The definition of investment securities which is contained in the law, as amended by the Act of February 25, 1927, would be stricken out and apparently the Comptroller would be given unlimited power to prescribe his own definition except that stocks could not be included. This modification is undesirable.

"For the reasons stated, it is recommended that this section be omitted entirely."

The definition of investment securities contained in existing law has been restored in effect in the present bill. The other provisions on this subject, however, which the Board recommended be omitted, have been retained in the present bill with certain changes and with the qualification that the section shall not take effect until five years after the approval of the Act. Under Section 5 of the present bill, furthermore, these provisions are applicable also to State member banks.

The present bill provides in effect that:

Dealings in investment securities are limited to the purchase and sale of such securities, without recourse, solely upon the order and for the account of customers, except that a member bank may purchase and hold for its own account investment securities under limitations and restrictions prescribed by regulation of the Comptroller of the Currency.

No member bank shall underwrite any issue of securities.

The total amount of any one issue of investment securities of any one obligor purchased after this section takes effect and held by a member bank for its own account shall not exceed 10 per cent of the total amount of such issue outstanding, but this limitation does not apply to any issue not in excess of $100,000 and not in excess of 50 per cent of the capital of the bank; and the total amount of investment securities of any one obligor purchased after this section takes effect and held by a member bank for its own account shall not exceed 15 per cent of the paid-up unimpaired capital of the bank and 25 per cent of its unimpaired surplus.

No member bank may purchase the stock of any corporation, except as otherwise permitted by law, and except that a bank may invest not more than

15 per cent of its unimpaired capital and surplus in the stock of safe deposit companies. These limitations do not apply to obligations of the United States, to obligations (whether general or special) of any State or any subdivision thereof, or to obligations issued under the authority of the Federal Farm Loan Act.

SECTION 16(b)

Capital Requirements of State Member Banks. (Page 39).

The present bill contains a provision, not found in S. 4115 and not recommended by the Federal Reserve Board, which amends Section 9 of the Federal Reserve Act so as to eliminate the provision of existing law under which a State bank is permitted to become a member of the Federal Reserve System with a capital equal to only 60 per cent of the amount required for the organization of a national bank in the place in which it is situated. The capital of State member banks hereafter admitted to the System, therefore, would be required in all cases to be equal to that required of national banks located in places of like size.

SECTION 17.

Divorce of Stock of National Banks from stock of other corporations. (Page 39).

The present bill provides that, after five years from the passage of the Act, no certificate of stock of a national bank shall represent the stock of any other corporation "except a member bank"; nor shall ownership or transfer of a stock certificate of a national bank be conditioned upon the ownership or transfer of a certificate of stock of another corporation "except a member bank".

This provision is as recommended by the Federal Reserve Board except that (1) the Board suggested that it become effective three years after the passage of the Act instead of five years thereafter; and (2) the qualifying phrase "except a member bank" was not contained in the Board's recommendation.

(Similar provisions regarding certificates of stock of State member banks are included in Section 5(b) of the present bill).

SECTION 18.

Right of an affiliate of a national bank to vote stock held by it in such bank. (Pages 39-45).

The Federal Reserve Board recommended a number of changes in the provisions which appeared in sections 19 and 20 of S. 4115 with reference to the conditions under which an affiliate of a national bank might vote stock held by it in such bank, and also recommended that a new section be added imposing similar requirements upon affiliates of State member banks. The present bill does not contain the provisions recommended by the Board on this subject, although, as explained heretofore under Section 5(b), a State member bank is required to obtain from its holding company affiliates an agreement to comply with the same requirements which are applicable to national bank affiliates under this section. In this connection the Board said:

"Under the definition of 'affiliate' contained in Section 2 and under the provisions of Sections 6, 27, and 28 of the Bill (S. 4115), if amended in accordance with the recommendations contained in this report, all holding companies which control member banks and all banks owned or

controlled by such holding companies will be affiliates of such member banks and will be required to make reports and submit to examinations whenever deemed necessary or advisable by the Comptroller of the Currency, the Federal Reserve Board or examiners appointed by them; and, therefore, it is suggested that the provisions regarding examinations and condition reports of holding companies be omitted from this section and from the corresponding sections regarding holding companies which own or control State member banks.

"It is also suggested that there be inserted in Section 19 and in the proposed new Section 20 certain additional provisions providing for the regulation and supervision of holding companies and requiring all eligible State banks controlled by them to be members of the Federal Reserve System."

The salient features of the provisions recommended by the Board on this subject were as follows: Shares owned or controlled by an affiliate of a national bank or any representative or agent of such affiliate shall not be voted unless such affiliate has filed an agreement with the Comptroller of the Currency to comply with the provisions of this section. Within one year from the date of any such agreement each nonmember State bank owned or controlled by such affiliate, if eligible, shall apply for membership in the Federal Reserve System and if not admitted or, if after admission, it ceases to be a member, such affiliate shall divest itself of all interest in such bank. Each such affiliate shall, on and after January 1, 1934, hold unpledged readily marketable assets, other than bank stock, equal to 15 per cent of bank stocks held by it and shall

reinvest its net earnings above 6 per cent in such assets until they amount to 25 per cent of bank shares held by it; with a proviso that, in computing the amount of such assets, credit shall be given for contributions made during the preceding three years to banks owned or controlled by the affiliate. Failure on the part of any such affiliate to comply with the provisions of the section or of the agreement is ground for the termination of the agreement by the Comptroller of the Currency. No national bank shall make any loan on the security of the stock of, or be the purchaser or holder of the stock of, any such affiliate which owns or controls such bank, or make any loan to any such affiliate on the security of the stock of a corporation owned or controlled by such affiliate, unless necessary to prevent loss upon a debt previously contracted in good faith; and stock so acquired shall be disposed of within two years. The voting of stock held by affiliates when an agreement of the kind mentioned is not in effect is made a crime punishable by fine; and officers and employees of affiliates which have entered into such an agreement with the Comptroller of the Currency are made subject to certain criminal provisions with reference to false entries.

The provisions recommended by the Board with reference to affiliates of State member banks were in large measure similar to those with reference to national banks except that the Federal Reserve Board is substituted for the Comptroller of the Currency. Under the Board's recommendations, no State member bank might remain a member after one year unless affiliates of such bank file the required agreements with the Board.

The provisions of the present bill with reference to the voting rights of affiliates of national banks, which do not contain

the provisions as recommended by the Board, are in brief form set forth in the following paragraphs.

Shares of a national bank controlled by a holding company affiliate, including those held by a trustee for the benefit of the shareholders of such affiliate, shall not be voted unless such affiliate shall have obtained a voting permit from the Federal Reserve Board; and in acting upon an application for such permit, the Board shall consider the financial condition of the applicant, the general character of its management and the probable effect of the granting of the permit upon the affairs of such bank. No permit shall be granted except upon the following conditions:

(a) Each such holding company affiliate shall agree: to submit to examinations, at its own expense, disclosing fully the relationship between such affiliate and such bank; that such examinations may be made of each bank owned or controlled by the affiliate; and that publication of statements of condition of such banks may be required.

(b) After five years after the passage of the Act, every such holding company affiliate shall possess unpledged readily marketable assets other than bank stock in an amount not less than 12% of the par value of all bank stocks controlled by such affiliate, which amount shall be increased by not less than 2% annually up to 25% thereof and by re-investing in such readily marketable assets net earnings in excess of 6% annually until such 25% requirement is reached.

(c) However, where the shareholders of the affiliate are themselves liable under the double liability provisions on the bank stock held by the affiliate, the latter shall be required only to establish, out of its net earnings in excess of 6%, a reserve of readily marketable assets equal to 12% of the par value of bank stocks controlled by it, and readily marketable assets required of such affiliate may be used for replacement of capital in, or losses incurred by, banks affiliated with it; but any deficiency so incurred shall be made up within such period as the Federal Reserve Board may prescribe.

(d) That officers, directors, agents and employees of such a holding company affiliate shall be subject to the same penalties for false entries as officers and employees of member banks are subject to under Section 5209 of the Revised Statutes.

(e) That every such holding company affiliate shall show that it does not have any interest in and is not participating in the management of any securities company and that it will not acquire such an interest or participation; that, if it has such an interest or participation it will, within five years, divest itself thereof; and that it will declare dividends only out of actual net earnings.

If any holding company affiliate violates any of the provisions of this act, the Federal Reserve Board may revoke its voting permit after notice, and thereafter no national bank whose stock is controlled by such affiliate shall receive Government deposits or pay any dividend to such affiliate.

Where such a voting permit of an affiliate has been revoked, the franchise of any national bank controlled by such an affiliate shall be subject to forfeiture.

SECTION 19.

Relationships between member banks and securities dealers or corporations making collateral loans. (Pages 45, 46)

Section 18 of S. 4115 contained provisions prohibiting directors, officers or employees of member banks to be directors, officers or employees of certain other specified classes of business enterprises and prohibiting a member bank from clearing checks or doing the ordinary banking business of a correspondent for any business enterprises of the classes mentioned. The Board recommended the omission of these provisions and they are not found in the present bill.

The Board suggested, however, a substitute paragraph on this subject and said in this connection:

"It has been clearly demonstrated that affiliations between member banks and security companies have contributed to undesirable banking developments. There are, however, difficulties in the way of accomplishing a complete divorce of member banks from their affiliates arising from the fact that a law intended for that purpose is likely to be susceptible of evasion or else to apply to many cases to which it is not intended to apply. Therefore, the Board is not prepared at this time to make a definite recommendation, but submits, for the consideration of the Committee on Banking and Currency, a substitute for Section 18 which is designed to provide for the divorce of security affiliates from member banks after three years."

The present bill provides, in substantial accordance with the provision recommended by the Board, that no member bank shall be affiliated with a securities corporation in the manner described in Section 2(b) of the present bill (where the word "affiliate" is defined so as not to include holding company affiliates). A violation of this provision subjects the member bank to a penalty of $1,000 a day, in the discretion of the Federal Reserve Board, and if the violation is continued for six months after warning from the Board, the bank's franchise may be forfeited, if a national bank, or its membership in the Federal Reserve System may be forfeited, if a State bank. The Board recommended that this provision be effective three years after the passage of the Act, but the present bill provides a period of five years before the provision becomes effective. Under the Board's recommendation the franchise of a national bank might be forfeited for violation of this provision in accordance with Section 5239 of the Revised Statutes, but under the present bill the forfeiture would be under Section 2 of the Federal Reserve Act, (under which suit for forfeiture may be brought by direction of the Federal Reserve Board.)

SECTION 20.

Branches of National Banks. (Pages 46, 47)

The recommendations made by the Federal Reserve Board with respect to the provisions of Section 21 of S. 4115 regarding branches of national banks have been incorporated in the present bill. Certain provisions of the present bill, however, regarding

matters concerning which the Board recommended no changes, may be noted:

1. The present bill requires the approval of the Comptroller of the Currency instead of that of the Federal Reserve Board for the establishment of a new branch by a national bank.

2. Out of town branches may be established only in those States where the law expressly authorizes State banks to establish them and in accordance with the restrictions of State law as to location, and in no case outside of the State in which the bank is located.

3. An exception is made to the requirement that a national bank have $500,000 capital stock in order to establish an out of town branch, so as to provide that where the bank is located in a State having a population of less than 1,000,000 and in which there is no city with a population exceeding 100,000, the required capital for the establishment of an out of town branch shall be $250,000.

(The provisions as to the establishment of branches of State member banks, in the form recommended by the Board, are contained in Section 5(b) of the present bill.)

SECTION 24

Reports of affiliates of national banks. (Pages 49,50).

The Federal Reserve Board recommended a change in Section 27 of S. 4115 on this subject, "in order that reports of affiliates of

national banks may be required only when deemed necessary and to clarify the provisions of the bill with respect to such reports". The present bill provides that a national bank shall obtain from each of its affiliates, other than member banks, and furnish to the Comptroller of the Currency not less than three reports each year on the same dates on which condition reports are required of the bank and such additional reports as the Comptroller may deem necessary. The term "affiliate" includes holding company affiliate. The provision requiring such reports is still mandatory; but they are required to contain only such information as in the judgment of the Comptroller shall be necessary to disclose fully the relations between such affiliate and such bank and as to the effect of such relations upon the affairs of such bank. Such reports of affiliates shall be published by the bank on the same conditions as govern its own condition reports. The bank is subject to a penalty for failure to render such reports.

(Substantially the same provisions are contained in Section 5(b) of the present bill with reference to reports of affiliates of State member banks, except that the reports are to be made to the Federal Reserve Board instead of to the Comptroller of the Currency.)

SECTION 25.

Examinations of affiliates of national banks. (Pages 50-52)

The Federal Reserve Board recommended a substitute for the provisions of Section 28 of S. 4115 with respect to examinations of affiliates of national banks. Some of the provisions of the Board's substitute have been adopted in the present bill and others have not.

The Federal Reserve Board's substitute authorized the examination of affiliates of national banks to be made when deemed necessary to obtain adequate information regarding the relations between the bank and the affiliate and the effect of such relations upon the bank. The present bill requires that examiners in making the examination of any national bank shall include such an examination of the affairs of all of its affiliates, other than member banks, as shall be necessary to disclose fully the relations between the bank and its affiliates and the effect thereof; and authorizes the forfeiture of the franchise of the bank in the event of the refusal of the affiliate to give information or to permit such an examination.

The present bill authorizes the publication of an examination report of a national bank or affiliate after 90 days' notice if the bank or affiliate fails to comply within 120 days with the

recommendations of the Comptroller of the Currency based on such examination. This provision, while contained in S. 4115, was omitted in the suggestion of the Board on this subject.

The Federal Reserve Board suggested certain other detailed provisions, authorizing the examiner to examine officers and employees of affiliates under oath; providing that the expenses of the examination be assessed by the Comptroller against the affiliate and, if not paid by the affiliate, against the national bank; and providing that a refusal by the affiliate to permit an examination or to give information be penalized by a fine against the national bank of $100 per day. These suggestions of the Board have been substantially adopted in the present bill, but the bill provides that the $100 penalty may be assessed and collected by the Comptroller of the Currency whereas the Board suggested that it be assessed by the Board and collected by the Federal reserve bank.

(Somewhat similar provisions with reference to examinations of affiliates of State member banks are contained in Section 5(b) of the present bill.)

SECTION 26.

Resumption of business by closed national banks. (Pages 52, 53)

The present bill contains a provision, not found in S. 4115

and not recommended by the Board, under which, in any case where, in the opinion of the Comptroller of the Currency, it would be to the advantage of depositors and unsecured creditors of a closed national bank for it to resume business upon the retention for a reasonable period, of all or a part of its deposits, the Comptroller may permit such resumption of business if 85% in amount of depositors and unsecured creditors consent in writing to such retention of deposits. It is provided that this section shall not affect any powers which the Comptroller now has with respect to the reorganization of national banks.

Rep

73D CONGRESS
1ST SESSION

S. 245

IN THE SENATE OF THE UNITED STATES

MARCH 9 (calendar day, MARCH 11), 1933

Mr. GLASS introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To provide for the safer and more effective use of the assets of Federal reserve banks and of national banking associations, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Banking Act of 1933."

SEC. 2. As used in this Act and in any provision of law amended by this Act—

(a) The terms "bank," "national bank," "national banking association," "member bank," "board," "district," and "reserve bank" shall have the meanings assigned to them in section 1 of the Federal Reserve Act, as amended.

(b) Except where otherwise specifically provided, the term "affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Of which a member bank, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 per centum of the number of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions; or

(2) Of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a member bank who own or control either a majority of the shares of such bank or more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election, or by trustees for the benefit of the shareholders of any such bank; or

(3) Of which a majority of its directors, trustees, or other persons exercising similar functions are directors of any one member bank.

(c) The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank; or

(2) For the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees.

SEC. 3. (a) The fourth paragraph after paragraph "Eighth" of section 4 of the Federal Reserve Act, as amended, is amended to read as follows:

"Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and may, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. The Federal Reserve

Board may prescribe regulations further defining within the limitations of this Act the conditions under which discounts, advancements, and accommodations may be extended to member banks. Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The chairman of the Federal reserve bank shall report to the Federal Reserve Board any such undue use of bank credit by any member bank, together with his recommendation. Whenever, in the judgment of the Federal Reserve Board, any member bank is making such undue use of bank credit, the board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal reserve system and may terminate such suspension or may renew it from time to time."

(b) The paragraph of section 4 of the Federal Reserve Act, as amended, which commences with the words "The

Federal Reserve Board shall classify" is amended by inserting before the period at the end thereof a colon and the following: "*Provided*, That whenever any two or more member banks within the same Federal reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate."

SEC. 4. The first paragraph of section 7 of the Federal Reserve Act, as amended, is amended, effective July 1, 1932, to read as follows:

"After all necessary expenses of a Federal reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid into the surplus fund of the Federal reserve bank."

SEC. 5. (a) The second paragraph of section 9 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following: "*Provided, however*, That nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in

any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks."

(b) Section 9 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof the following new paragraphs:

"Each bank admitted to membership under this section shall obtain from each of its affiliates other than member banks and furnish to the Federal reserve bank of its district and to the Federal Reserve Board ~~not less than three reports during each year~~ such reports as the Federal Reserve Board shall deem necessary. Such reports shall be in such form as the Federal Reserve Board may prescribe, shall be verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, ~~and shall disclose the information hereinafter provided for as of dates identical with those fixed by the Federal Reserve Board for reports of the condition of the affiliated member bank. Each such report of an affiliate shall be transmitted as herein provided at the same time as the corresponding report of the affiliated member bank, except that the Federal Reserve Board may, in its discretion, extend such time for good cause shown.~~ Each such report shall contain such information as in the judgment of the Federal Reserve Board shall be necessary to disclose fully the relations

between such affiliate and such bank and to enable the board to inform itself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the bank under the same conditions as govern its own condition reports.

"Any such affiliated member bank may be required to obtain from any such affiliate such additional reports as in the opinion of its Federal reserve bank or the Federal Reserve Board may be necessary in order to obtain a full and complete knowledge of the condition of the affiliated member bank. Such additional reports shall be transmitted to the Federal reserve bank and the Federal Reserve Board and shall be in such form as the Federal Reserve Board may prescribe.

"Any such affiliated member bank which fails to obtain from any of its affiliates and furnish any report provided for by the two preceding paragraphs of this section shall be subject to a penalty of $100 for each day during which such failure continues, which, by direction of the Federal Reserve Board, may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located. For the purposes of this paragraph and the two preceding paragraphs of this section, the term 'affiliate' shall include holding company affiliates as well as other affiliates.

"State member banks shall be subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under paragraph 'Seventh' of section 5136 of the Revised Statutes, as amended.

"After five years from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any State member bank shall represent the stock of any other corporation, except a member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank.

"Each State member bank affiliated with a holding company affiliate shall obtain from such holding company affiliate, within such time as the Federal Reserve Board shall prescribe, an agreement that such holding company affiliate shall be subject to the same conditions and limitations as are applicable under section 5144 of the Revised Statutes, as amended, in the case of holding company affiliates of national banks. A copy of each such agreement shall be filed with the Federal Reserve Board. Upon the failure of a State member bank affiliated with a holding company affiliate to

obtain such an agreement within the time so prescribed, the Federal Reserve Board shall require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal reserve system as provided in this section. Whenever the Federal Reserve Board shall have revoked the voting permit of any such holding company affiliate, the Federal Reserve Board may, in its discretion, require any or all State member banks affiliated with such holding company affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal reserve system as provided in this section.

"In connection with examinations of State member

"Any examiner selected or approved by the Federal Reserve Board may examine any affiliate of any bank admitted to membership under the provisions of this section when it shall be deemed necessary in order to inform the Federal Reserve Board or the Federal reserve bank of the relations of such affiliate with such member bank or of the effect of such relations upon the management or condition of such member bank. The examiner making the examination of any such affiliate shall have power to make a thorough examination of all the affairs of the affiliate, and in doing so he shall have power to administer oaths and to examine any of the officers, directors, employees, and agents thereof under oath, and shall make a report of his findings to the Federal Reserve Board or to the Federal reserve bank. The expenses of any examination made under the provisions of this paragraph may, in the discretion of the Federal Reserve Board, be assessed against the affiliate examined and, when so assessed, shall be paid by the affiliate examined. If such affiliate shall refuse to pay such expenses or shall fail to do so within sixty days after the date of such assessment, then such expenses may be assessed against the affiliated member bank and, when so assessed, shall be paid by such member bank; Provided, however, That, if the affiliation is with two or more member banks, such expenses may be assessed against, and collected from, any or all of such member banks in such proportions as the Federal Reserve Board may prescribe. If any affiliate of a bank admitted to membership under the provisions of this section shall refuse to permit an examiner to make an examination of such affiliate or refuse to give any information required in the course of any such examination, each member bank with which it is affiliated shall be subject to a penalty of not more than $100 for each day that any such refusal shall continue. Such penalty may be assessed by the Federal Reserve Board in its discretion, and, when so assessed, may be collected by the Federal reserve bank by suit or otherwise."

any expense so assessed, the Federal Reserve Board may, in its discretion, require any or all State member banks affiliated with such affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal reserve system, as provided in this section."

SEC. 6. (a) The first paragraph of section 10 of the Federal Reserve Act, as amended, is amended to read as follows:

"A Federal Reserve Board is hereby created which shall consist of seven members, including the Comptroller of the Currency, who shall be a member ex officio, and six members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the six appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country, and at least two of such members shall be persons of tested banking experience. The six members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of $12,000, payable monthly,

together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of $7,000 annually for his services as a member of said board."

(b) The second paragraph of section 10 of the Federal Reserve Act, as amended, is amended to read as follows:

"The Comptroller of the Currency shall be ineligible during the time he is in office and for two years thereafter to hold any office, position, or employment in any member bank. The appointive members of the Federal Reserve Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office when this paragraph as amended takes effect, the President shall fix the term of the successor to such member at not to exceed twelve years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one appointive member in any two-year period, and thereafter each appointive member shall hold office for a term of twelve

years from the expiration of the term of his predecessor. Of the six persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be its active executive officer. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office."

(c) The fourth paragraph of section 10 of the Federal Reserve Act, as amended, is amended to read as follows:

"The principal offices of the board shall be in the District of Columbia. At meetings of the board the governor shall preside as chairman, and, in his absence, the vice governor shall preside. In the absence of both the governor and the vice governor, the board shall elect a member to act as chairman pro tempore. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank or hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath that he has complied with this requirement and such certification shall be filed with the secretary of the board. Whenever a vacancy shall occur, other than by expiration of term, among the six members of the Federal Reserve Board appointed by

the President as above provided, a successor shall be appointed by the President, by and with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of his predecessor."

SEC. 7. The Federal Reserve Act

"(d) Section 10 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof a new paragraph reading as follows:

'The Federal Reserve Board is authorized and empowered to acquire by purchase, condemnation or otherwise, a building located in the District of Columbia which will provide suitable and adequate offices wherein the functions of the Board and the Comptroller of the Currency may be carried on, or to acquire by purchase, condemnation or otherwise, such site located in the District of Columbia as it may deem necessary and to cause to be constructed thereon a building which will provide suitable and adequate offices for the purposes of the Federal Reserve Board and the Comptroller of the Currency, and to maintain, repair, enlarge or remodel any building so acquired or constructed. The Federal Reserve Board may assign offices in any such building for the use of the Comptroller of the Currency and the Federal Liquidating Corporation, and nothing contained in the Act of June 3, 1864, or in Section 331 of the Revised Statutes (Title 12, Section 13, U.S.C.), or in any other provision of law, shall be construed as preventing the Comptroller of the Currency from making full use of any offices so assigned and from keeping therein the records and all other valuable things belonging to his department. The Federal Reserve Board may levy upon the Federal reserve banks, in proportion to their capital stock and surplus, assessments sufficient to defray all costs and expenses incurred under the provisions of this paragraph.'"

"Sec. 7. Section 14 of the Federal Reserve Act, as amended, is further amended by striking out the words 'Every Federal reserve bank shall have power;' and inserting in lieu thereof the following:

'Subject to such regulations, limitations, restrictions and procedure as the Federal Reserve Board may prescribe, every Federal reserve bank shall have power:'

"Section 14 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof a new paragraph reading as follows:

'The time, character and volume of all purchases and sales in the open market under this section shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.'"

the open market transactions of such banks and the relations of the Federal reserve system with foreign central or other foreign banks. Every such resolution shall be reported to the Federal Reserve Board and be subject to its approval.

"(c) The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

"(d) If any Federal reserve bank shall decide not to participate in open market operations recommended and approved as provided in paragraph (b) hereof, it shall file with the chairman of the committee within thirty days a notice of its decision, and transmit a copy thereof to the Federal Reserve Board.

"SEC. 12B. (a) There is hereby created a Federal Liquidating Corporation (hereinafter referred to as the corporation), whose duty it shall be to purchase, hold, and liquidate as hereinafter provided, the assets of national banks which have been closed by action of the Comptroller of the Currency, or by vote of their directors, and the assets of State member banks which have been closed by action of the appropriate State authorities, or by vote of their directors.

"(b) The management of the corporation shall be vested in a board of directors consisting of five members, one of whom shall be the Comptroller of the Currency, one a member of the Federal Reserve Board designated by the board for the purpose, and three selected annually by the governors of the twelve Federal reserve banks under such procedure as may be prescribed by the Federal Reserve Board. No member of such board of directors shall receive any additional compensation for his services as such member.

"(c) There is hereby authorized to be appropriated,

"(c) The corporation shall have a capital stock of $125,000,000, all of which shall be subscribed by the United States of America and payment for which shall be subject to call in whole or in part by the board of directors of the corporation.

"There is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated the sum of $100,000,000 for the purpose of making payments upon such subscription. Receipts for payments by the United States for or on account of such stock shall be issued by the corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States.

"Any Federal reserve bank may purchase and hold any debentures or other such obligations of the corporation in an amount not exceeding one-fourth of the amount of its surplus fund."

[illegible] the United States shall be entitled to the payment of dividends on such stock to the same extent as member banks are entitled to such payment on the class A stock of the corporation held by them. Receipts for payments by the United States for or on account of such stock shall be issued by the corporation to the Secre-

tary of the Treasury and shall be evidence of the stock ownership of the United States.

"(d) The capital stock of the corporation shall be divided into shares of $100 each. Certificates of stock of the corporation shall be of two classes, class A and class B. Class A stock shall be held by member banks only and they shall be entitled to payment of dividends out of net earnings at the rate of six per centum per annum on the capital stock paid in by them, which dividends shall be cumulative, or to the extent of 30 per centum of such net earnings in any one year, whichever amount shall be the greater, but such stock shall have no vote at meetings of stockholders. Class B stock shall be held by Federal reserve banks only and shall not be entitled to the payment of dividends. Every Federal reserve bank shall subscribe to shares of class B stock in the corporation to an amount equal to one-fourth of the surplus of such bank on July 1, 1932, and its subscriptions shall be accompanied by a certified check payable to the corporation in an amount equal to one-half of such subscription. The remainder of such subscription shall be subject to call from time to time by the board of directors upon ninety days' notice.

"(e) Every member bank shall subscribe to the class A capital stock of the corporation in an amount equal to one-fourth of 1 per centum of its total net outstanding time

and demand deposits on July 1, 1932, as computed in accordance with regulations of the Federal Reserve Board governing the computation of reserves. One-half of such subscription shall be paid in full within ninety days after receipt of notice from the chairman of the board of directors of the corporation, and the remainder of such subscription shall be subject to call from time to time by the board of directors of the corporation.

"(f) The amount of the outstanding class A stock of the corporation held by member banks shall be annually adjusted as hereinafter provided as of the last preceding call date as member banks increase their time and demand deposits or as additional banks become members, and such stock may be decreased in amount as member banks reduce their time and demand deposits or cease to be members. Shares of the capital stock of the corporation owned by member banks shall not be transferred or hypothecated. When a member bank increases its time and demand deposits, it shall, at the beginning of each calendar year, subscribe for an additional amount of capital stock of the corporation equal to one-fourth of 1 per centum of such increase in deposits. One-half of the amount of such additional stock shall be paid for at the time of the subscription therefor and the balance shall be subject to call by the board

of directors of the corporation. A bank admitted to membership in the Federal reserve system at any time after the organization of the corporation shall be required to subscribe for an amount of class A capital stock equal to one-fourth of 1 per centum of the time and demand deposits of the applicant bank as of the date of such admission, paying therefor its par value plus one-half of 1 per centum a month from the period of the last dividend on the class A stock of the corporation. When a member bank reduces its time and demand deposits it shall surrender, not later than the 1st day of January thereafter, a proportionate amount of its holdings in the capital stock of the corporation, and when a member bank voluntarily liquidates it shall surrender all its holdings of the capital stock of the corporation and be released from its stock subscription not previously called. The shares so surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and its proportionate share of dividends not to exceed one-half of 1 per centum a month, from the period of the last dividend on such stock, less any liability of such member bank to the corporation.

"(g) If any member bank shall be declared insolvent, the stock held by it in the corporation shall be canceled,

without impairment of the liability of such bank, and all cash-paid subscriptions on such stock, with its proportionate share of dividends not to exceed one-half of 1 per centum per month from the period of last dividend on such stock shall be first applied to all debts of the insolvent bank or the receiver thereof to the corporation, and the balance, if any, shall be paid to the receiver of the insolvent bank.

"(h) Upon the date of enactment of the Banking Act of 1933, the corporation shall become a body corporate and as such shall have power—

"First. To adopt and use a corporate seal.

"Second. To have succession until dissolved by an Act of Congress.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal.

"Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this section, to define their duties, fix their compensation, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the corporation of any officer or employee of the United

States in any board, commission, independent establishment, or executive department thereof.

"Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

"Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this section and such incidental powers as shall be necessary to carry out the powers so granted.

"(i) The board of directors shall administer the affairs of the corporation fairly and impartially and without discrimination in favor of or against any member bank or banks and may, subject to the provisions of law, extend to each national bank which is closed by action of the Comptroller of the Currency, or by vote of its directors, and to each State member bank which is closed by action of the appropriate State authorities, or by vote of its directors, such accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks. The board of directors of the corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The corporation shall be entitled to the free use of the United States mails in the same manner as the executive depart-

ments of the Government. The corporation with the consent of any Federal reserve bank or of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, and facilities thereof in carrying out the provisions of this section.

"(j) Whenever any member bank shall have been closed by action of its board of directors, the Comptroller of the Currency, or the appropriate State authority, as the case may be, the receiver may tender the assets of such bank to the corporation which may purchase the same, or make a loan on the security thereof, in whole or in part, as in the determination of its board of directors the prompt and economical liquidation of the assets of such bank may require, on the basis of such valuations as may be agreed upon by a valuation committee of three members consisting of the receiver of such bank, a member to be named by the board of directors of such bank, and a person to be chosen by the receiver and the member named by such board of directors. It shall be the duty of the corporation to proceed to realize as rapidly as possible, having due regard to the condition of credit in the district in which such bank is located, upon any assets so purchased, and if the net amount realized from the sale or other disposition of such assets exceeds the sum paid therefor, the corporation shall

make an additional payment to the receiver of the bank equal to the amount of such excess, if any, after deducting a reasonable liquidation fee from liquidation fee of 8 per centum of the sum thus realized; but any income derived by the corporation from such assets shall be the property of the corporation. Money of the corporation not otherwise employed shall be invested in securities of the Government of the United States, except that for temporary periods, in the discretion of the board of directors, funds of the corporation may be deposited subject to check in any Federal reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

"(k) The corporation may, in its discretion, purchase the assets of banks in the hands of receivers on the date of its organization, but on the same conditions and terms as are applicable in the case of assets of banks which may fail or be closed after such date. Nothing herein contained shall be construed to prevent the corporation from making loans to national banks closed by action of the Comptroller of the

Currency, or by vote of their directors. or to State member banks closed by action of the appropriate State authorities, or by vote of their directors, or from entering into negotiations to secure the reopening of such banks.

"(l) Receivers or liquidators of member banks which are now or may hereafter become insolvent or suspended shall be entitled to offer the assets of such banks for sale to the corporation or as security for loans from the corporation, upon receiving permission from the appropriate State authority in accordance with express provision of State law in the case of State member banks, or from the Comptroller of the Currency in the case of national banks. The proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. The Comptroller of the Currency may, in his discretion, pay dividends on proved claims at any time after the expiration of the period of advertisement made pursuant to section 5235 of the Revised Statutes, and no liability shall attach to the Comptroller of the Currency or to the receiver of any national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment.

"(m) The corporation is authorized and empowered to issue and to have outstanding at any one time in an amount

aggregating not more than twice the amount of its capital, its notes, debentures, bonds, or other such obligations, to be redeemable at the option of the corporation before maturity in such manner as may be stipulated in such obligations, and to bear such rate or rates of interest, and to mature at such time or times as may be determined by the corporation: *Provided*, That the corporation may sell on a discount basis short-term obligations payable at maturity without interest. The notes, debentures, bonds, and other such obligations of the corporation may be secured by assets of the corporation in such manner as shall be prescribed by its board of directors. Such obligations may be offered for sale at such price or prices as the corporation may determine.

"(n) All notes, debentures, bonds, or other such obligations issued by the corporation shall be exempt, both as to principal and interest, from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the corporation shall be

subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

"(o) In order that the corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the corporation, to be held in the Treasury subject to delivery, upon order of the corporation. The engraved plates, dies, bed pieces, and other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other such obligations.

"(p) The corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

"(q) Whoever, for the purpose of obtaining any loan from the corporation, or any extension or renewal thereof, or the acceptance, release, or substitution of security therefor, or for the purpose of inducing the corporation to purchase any assets, or for the purpose of influencing in any way the action of the corporation under this section, makes

any statement, knowing it to be false, or wilfully overvalues any security, shall be punished by a fine of not more than $5,000 or by imprisonment for not more than two years, or both.

"(r) Whoever (1) falsely makes, forges, or counterfeits any obligation or coupon, in imitation of or purporting to be an obligation or coupon issued by the corporation, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited obligation or coupon purporting to have been issued by the corporation, knowing the same to be false, forged, or counterfeited, or (3) falsely alters any obligation or coupon issued or purporting to have been issued by the corporation, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious obligation or coupon, issued or purporting to have been issued by the corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

"(s) Whoever, being connected in any capacity with the corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged, or otherwise intrusted to it, or (2) with intent to defraud the corporation or any other body, politic or corporate, or any

individual, or to deceive any officer, auditor, or examiner of the corporation, makes any false entry in any book, report, or statement of or to the corporation, or without being duly authorized draws any order or issues, puts forth or assigns any note, debenture, bond, or other such obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

"(t) No individual, association, partnership, or corporation shall use the words 'Federal Liquidating Corporation,' or a combination of these three words, as the name or a part thereof under which he or it shall do business. Every individual, partnership, association, or corporation violating this subdivision shall be punished by a fine of not exceeding $1,000 or by imprisonment not exceeding one year, or both.

"(u) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive), in so far as applicable, are extended to apply to contracts or agreements with the corporation under this section, which for the purposes hereof shall be held to include loans, advances, extensions, and renewals thereof, and acceptances, releases, and substitutions of security therefor, purchases or sales of

assets, and all contracts and agreements pertaining to the same.

"(v) The Secret Service Division of the Treasury Department is authorized to detect, arrest, and deliver into the custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this section."

SEC. 8. The seventh paragraph of section 13 of the

"Sec. 8. The eighth paragraph of Section 13 of the Federal Reserve Act, as amended, is amended and reenacted to read as follows:

"'Any Federal reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness or Treasury bills of the United States, or by the deposit or pledge of debentures or other such obligations of Federal Intermediate Credit Banks which are eligible for purchase by Federal reserve banks under Section 13(a) of this Act; and any Federal reserve bank may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act. All such advances shall be made at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board.'"

or notes of the United States. If any member bank to which any such advance has been made shall, during the life or continuance of such advance, and despite an official warning of the reserve bank of the district or of the Federal Reserve Board to the contrary, increase its outstanding loans secured by collateral in the form of stocks, bonds,

debentures, or other such obligations, or loans made to members of any organized stock exchange, investment house, or dealer in securities, upon any obligation, note, or bill, secured or unsecured, for the purpose of purchasing and/or carrying stocks, bonds, or other investment securities (except obligations of the United States) such advance shall be deemed immediately due and payable, and such member bank shall be ineligible as a borrower at the reserve bank of the district under the provisions of this paragraph for such period as the Federal Reserve Board shall determine."

SEC. 9. Section 14 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following new paragraph:

"(g) The Federal Reserve Board shall exercise special supervision over all relationships and transactions of any kind entered into by any Federal reserve bank with any foreign bank or banker, or with any group of foreign banks or bankers, and all such relationships and transactions shall be subject to such regulations, conditions, and limitations as the board may prescribe. No officer or other representative of any Federal reserve bank shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker without first obtaining the permission of the Federal Reserve Board. The Federal Reserve

Board shall have the right, in its discretion, to be represented in any conference or negotiations by such representative or representatives as the board may designate. A full report of all conferences or negotiations, and all understandings or agreements arrived at or transactions agreed upon, and all other material facts appertaining to such conferences or negotiations, shall be filed with the Federal Reserve Board in writing by a duly authorized officer of each Federal reserve bank which shall have participated in such conferences or negotiations."

SEC. 10. Section 19 of the Federal Reserve Act, as amended, is amended by inserting after the sixth paragraph thereof the following new paragraph:

directly or indirectly

"No member bank shall act as the medium or agent of any nonbanking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in stocks, bonds, and other investment securities. Every violation of this provision by any member bank shall be punishable by a fine of not more than $100 per day during the continuance of such violation; and such fine may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located."

SEC. 11. Section 22 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof two new subsections (g) and (h) reading as follows:

"(g) No executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers. If any executive officer of any member bank borrow from or if he be or become indebted to any bank other than a member bank of which he is an executive officer, he shall make a written report to the chairman of the board of directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor, and the purpose for which the proceeds have been or are to be used. Any executive officer of any member bank violating the provisions of this subsection shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5,000, or both; and any member bank violating the provisions of this subsection shall be fined not more than $10,000 and may be fined a further sum equal to the amount so loaned or credit so extended.

"(h) If a spouse, a brother, or a sister, a lineal ancestor, or a direct descendant of an executive officer of any member bank borrow from or if he or she be or become indebted to such member bank, such executive officer shall make a written report to the chairman of the board of

directors of the member bank of which he is an executive officer, stating the date and amount of such loan or indebtedness, the security therefor and the purpose for which the proceeds have been or are to be used. Any executive officer of any member bank knowingly violating the provisions of this subsection shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than $5,000, or both."

SEC. 12. The Federal Reserve Act, as amended, is amended by inserting between sections 23 and 24 thereof the following new section:

"SEC. 23A. No member bank shall (1) make any loan or any extension of credit to, or purchase securities under repurchase agreement from, any of its affiliates, or (2) invest any of its funds in the capital stock, bonds, debentures, or other such obligations of any such affiliate, or (3) accept the capital stock, bonds, debentures, or other such obligations of any such affiliate as collateral security for advances made to any person, partnership, association, or corporation, if, in the case of any such affiliate, the aggregate amount of such loans, extensions of credit, repurchase agreements, investments, and advances against such collateral security will exceed 10 per centum of the capital stock and surplus of such member bank, or if, in the case of all such affiliates, the aggregate amount of such loans, extensions of credits,

repurchase agreements, investments, and advances against such collateral security will exceed 20 per centum of the capital stock and surplus of such member bank.

"Within the foregoing limitations, each loan or extension of credit of any kind or character to an affiliate shall be secured by collateral in the form of stocks, bonds, debentures, or other such obligations having a market value at the time of making the loan or extension of credit of at least 20 per centum more than the amount of the loan or extension of credit, or of at least 10 per centum more than the amount of the loan or extension of credit if it is secured by obligations of any State, or of any political subdivision or agency thereof; *Provided*, That the provisions of this paragraph

"or by collateral in the form of notes, drafts, bills of exchange or bankers' acceptances eligible for rediscount or for purchase by Federal reserve banks having a face value of at least 25% more than the amount of the loan or extension of credit."

as are eligible for rediscount or for purchase by Federal reserve banks. A loan or extension of credit to a director, officer, clerk, or other employee or any representative of any such affiliate shall be deemed a loan to the affiliate to the extent that the proceeds of such loan are used for the benefit of, or transferred to, the affiliate.

"For the purposes of this section the term 'affiliate' shall include holding company affiliates as well as other

affiliates, and the provisions of this section shall not apply to any affiliate (1) engaged solely in holding the bank premises of the member bank with which it is affiliated, (2) engaged solely in conducting a safe-deposit business or the business of an agricultural credit corporation or livestock loan company, (3) in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of the Federal Reserve Act, as amended, or (4) organized under section 25 (a) of the Federal Reserve Act, as amended; but as to any such affiliate, member banks shall continue to be subject to other provisions of law applicable to loans by such banks and investments by such banks in stocks, bonds, debentures, or other such obligations."

SEC. 13. The Federal Reserve Act, as amended, is amended by inserting between section 24 and section 25 thereof the following new section:

"SEC. 24A. Hereafter no national bank, without the approval of the Comptroller of the Currency, and no State member bank, without the approval of the Federal Reserve Board, shall (1) invest in bank premises, or in the stock, bonds, debentures, or other such obligations of any corporation holding the premises of such bank, or (2) make loans to or upon the security of the stock of any such corporation,

if the aggregate of all such investments and loans will exceed the amount of the capital stock of such bank."

SEC. 14. The Federal Reserve Act, as amended, is further amended by inserting after section 25 (a) thereof the following new section:

"SEC. 25. (b) Notwithstanding any other provision of law all suits of a civil nature at common law or in equity to which any corporation organized under the laws of the United States shall be a party, arising out of transactions involving international or foreign banking, or banking in a dependency or insular possession of the United States, or out of other international or foreign financial operations, either directly or through the agency, ownership, or control of branches or local institutions in dependencies or insular

"Notwithstanding any other provision of law, all suits of a civil nature at common law or in equity to which any Federal reserve bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and any defendant in any such suit may, at any time before the trial thereof, remove such suit from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. No attachment or execution shall be issued against any Federal reserve bank or its property before final judgment in any suit, action, or proceeding in any State, County, Municipal or United States Court."

procedure for the removal of causes otherwise provided by law."

SEC. 15. Paragraph "Seventh" of section 5136 of the Revised Statutes, as amended, is amended to read as follows:

"Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title; and generally by engaging in all forms of banking business and undertaking all types of banking transactions that may, by the laws of the State in which such bank is situated, be permitted to banks of deposit and discount organized and incorporated under the laws of such State, except in so far as they may be forbidden by the provisions of any Act of Congress. The business of dealing in investment securities by the association shall be limited to purchasing and selling such securities without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities: *Provided*, That the association may purchase for its own account investment securities under such limitations and restrictions

as the Comptroller of the Currency may by regulation prescribe, but in no event (1) shall the total amount of any issue of investment securities of any one obligor or maker purchased after this section as amended takes effect and held by the association for its own account exceed at any time 10 per centum of the total amount of such issue outstanding, but this limitation shall not apply to any such issue the total amount of which does not exceed $100,000 and does not exceed 50 per centum of the capital of the association, nor (2) shall the total amount of the investment securities of any one obligor or maker purchased after this section as amended takes effect and held by the association for its own account exceed at any time 15 per centum of the amount of the capital stock of the association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund. As used in this section the term 'investment securities' shall mean marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes and/or debentures commonly known as investment securities under such further definition of the term 'investment securities' as may by regulation be prescribed by the Comptroller of the Currency. Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association of any shares of stock of any corporation. The limi-

tations herein contained as to investment securities shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act, as amended: *Provided,* That in carrying on the business commonly known as the safe-deposit business the association shall not invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of the association actually paid in and unimpaired and 15 per centum of its unimpaired surplus."

The restrictions of this section as to dealing in investment securities shall take effect one year after the date of the approval of this Act.

SEC. 16. (a) Section 5138 of the Revised Statutes, as amended, is amended to read as follows:

"SEC. 5138. After this section as amended takes effect, no national banking association shall be organized with a less capital than $100,000, except that such associations with a capital of not less than $50,000 may be organized in any place the population of which does not exceed six thousand inhabitants. No such association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than $200,000, except that in the outlying districts of such a city where the State laws permit the organization of State banks with a

capital of $100,000 or less, national banking associations now organized or hereafter organized may, with the approval of the Comptroller of the Currency, have a capital of not less than $100,000."

(b) The tenth paragraph of section 9 of the Federal Reserve Act, as amended, is amended to read as follows:

"No applying bank shall be admitted to membership in a Federal reserve bank unless 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, as amended."

SEC. 17. Section 5139 of the Revised Statutes, as amended, is amended by adding at the end thereof the following new paragraph:

"After two years from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any such association shall represent the stock of any other corporation, except a member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank."

SEC. 18. Section 5144 of the Revised Statutes, as amended, is amended to read as follows:

"SEC. 5144. In all elections of directors and in deciding all questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except (1) that shares of its own stock held by a national bank as trustee shall not be voted, and (2) shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote.

"For the purposes of this section shares shall be deemed to be controlled by a holding company affiliate if they are owned or controlled directly or indirectly by such holding company affiliate, or held by any trustee for the benefit of the shareholders or members thereof.

"Any such holding company affiliate may make application to the Federal Reserve Board for a voting permit entitling it to cast one vote at all elections of directors and in deciding all questions at meetings of shareholders of such bank on each share of stock controlled by it or authorizing the trustee or trustees holding the stock for its benefit

or for the benefit of its shareholders so to vote the same. The Federal Reserve Board may, in its discretion, grant or withhold such permit as the public interest may require. In acting upon such application, the board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank, but no such permit shall be granted except upon the following conditions:

"(a) Every such holding company affiliate shall, in making the application for such permit, agree (1) to receive, on dates identical with those fixed for the examination of banks with which it is affiliated, examiners duly authorized to examine such banks, who shall make such examinations of such holding company affiliate as shall be necessary to disclose fully the relations between such banks and such holding company affiliate and the effect of such relations upon the affairs of such banks, such examinations to be at the expense of the holding company affiliate so examined; (2) that the reports of such examiners shall contain such information as shall be necessary to disclose fully the relations between such affiliate and such banks and the effect of such relations upon the affairs of such banks; (3) that such examiners may examine each bank owned or controlled by the holding company affiliate, both individually and in conjunction with other banks owned or

controlled by such holding company affiliate; and (4) that publication of individual or consolidated statements of condition of such banks may be required;

"(b) After five years after the enactment of the Banking Act of 1933, every such holding company affiliate (1) shall possess, and shall continue to possess during the life of such permit, free and clear of any lien, pledge, or hypothecation of any nature, readily marketable assets other than bank stock in an amount not less than

"Provided, however, That, in computing the amount of readily marketable assets, other than bank stock, which any such affiliate is required to possess at any given time, credit shall be given to such affiliate for all contributions which it has made during the preceding three years to banks owned or controlled by it at the time such computation is made. The term 'contribution', as herein used, shall include all such gifts of money, assets or other things of value to any such bank, all such amounts paid for worthless or doubtful assets purchased from any such bank, and all such other similar amounts as the Federal Reserve Board, in its discretion, may permit to be treated as contributions."

e inclusion of this provision would encourage affiliates

until such assets shall amount to such 25 per centum of the aggregate par value of all bank stocks controlled by it;

"(c) Notwithstanding the foregoing provisions of this section, after five years after the enactment of the Banking Act of 1933, (1) any such holding company affiliate the shareholders or members of which shall be individually and severally liable in proportion to the number of shares of such holding company affiliate held by them

respectively, in addition to amounts invested therein, for all statutory liability imposed on such holding company affiliate by reason of its control of shares of stock of banks, shall be required only to establish and maintain out of net earnings over and above 6 per centum per annum on the book value of its own shares outstanding a reserve of readily marketable assets in an amount not less than 12 per centum of the aggregate par value of bank stocks controlled by it, and (2) the assets required by this section to be possessed by such holding company affiliate may be used by it for replacement of capital in banks affiliated with it and for losses incurred in such banks, but any deficiency in such assets resulting from such use shall be made up within such period as the Federal Reserve Board may by regulation prescribe;

"(d) Every officer, director, agent, and employee of every such holding company affiliate shall be subject to the same penalties for false entries in any book, report, or

"(d) Within a period of one year from the date of the issuance of such voting permit, each nonmember State bank owned or controlled by such holding company affiliate which is eligible for membership in the Federal reserve system shall apply for membership therein in the manner prescribed by, and subject to the terms of, Section 9 of the Federal Reserve Act; if such application is approved by the Federal Reserve Board, such bank shall become a member of the Federal reserve system and shall comply with all of the provisions of law applicable to member banks; if such application is not approved by the Federal Reserve Board, or if any such bank shall fail to become, or shall cease to be, a member of the Federal reserve system at any time while such agreement remains in effect, such affiliate shall divest itself of all stock ownership or other interest in, or control of, such bank within such time as the Federal Reserve Board may determine; and"

in the management or direction of, any corporation, business trust, association, or other similar organization formed for the purpose of, or engaged principally in, the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds, debentures, notes, or other securities of any sort (hereinafter referred to as securities company); (2) agree that during the period that the permit remains in force it will not acquire any ownership, control, or interest in any such securities company or participate in the management or direction thereof; (3) agree that if, at the time of filing the application for such permit, it owns, controls, or has an interest in, or is participating in the management or direction of, any such securities company, it will, within five years after the filing of such application, divest itself of its ownership, control, and interest in such securities company and will cease participating in the management or direction thereof, and will not thereafter, during the period that the permit remains in force, acquire any further ownership, control, or interest in any such securities company or participate in the management or direction thereof; and (4) agree that thenceforth it will declare dividends only out of actual net earnings.

" If at any time it shall appear to the Federal Reserve Board that any holding company affiliate has violated any

condition prescribed by or

of the provisions of the Banking Act of 1933 or of any agreement made pursuant to this section, the Federal Reserve Board may, in its discretion, revoke any such voting

"Unless there is in effect at the time a voting permit issued pursuant to the terms of this section, any person, firm, corporation, association, business trust, or other organization, which shall vote, or cause, direct, authorize, or permit to be voted, the stock of any national bank owned or controlled by any holding company affiliate, or by any officer, director, employee, proxy, nominee or representative or agent thereof, or by any trustee for the benefit of the shareholders or members thereof, shall be deemed guilty of a misdemeanor and, upon conviction thereof in any district court of the United States, shall be fined not more than $5,000 for each such offense. Each vote cast shall constitute a separate offense within the meaning of this paragraph.

"Any officer, director, agent or employee of any such holding company affiliate for which there is in effect a voting permit issued under the provisions of this section, who shall make any false entry in any book, report or statement of such affiliate with intent in any case to injure or defraud such affiliate, any member bank or any other company, body politic or corporate, or any individual person, or with intent to deceive the Federal Reserve Board or any officer of such affiliate or of any member bank, or the Comptroller of the Currency, or any agent or examiner appointed to examine the affairs of such affiliate, shall be deemed guilty of a misdemeanor and upon conviction thereof in any district court of the United States shall be fined not more than $5,000 or shall be imprisoned for not more than five years, or both, in the discretion of the court.

"No national bank shall, (1) make any loan on the stock of any holding company affiliate which owns or controls such national bank directly or indirectly, (2) make any loan to any holding company affiliate which owns or controls such national bank, directly or indirectly, on the security of any shares of stock of any corporation owned or controlled by such holding company affiliate, or (3) be the purchaser or holder of the stock of such holding company affiliate; unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and any stock so purchased or acquired shall be sold or disposed of at public or private sale within six months from the date of its acquisition, unless the time is extended by the Comptroller of the Currency."

public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities.

For every violation of this section the member bank involved shall be subject to a penalty not exceeding $1,000 per day for each day during which such violation continues. Such penalty may be assessed by the Federal Reserve Board, in its discretion, and, when so assessed, may be collected by the Federal reserve bank by suit or otherwise.

If any such violation shall continue for six calendar months after the member bank shall have been warned by the Federal Reserve Board to discontinue the same, (a) in the case of a national bank, all the rights, privileges, and franchises granted to it under the National Bank Act may be forfeited in the manner prescribed in section 2 of the Federal Reserve Act, as amended, or, (b) in the case of a State member bank, all of its rights and privileges of membership in the Federal reserve system may be forfeited in the manner prescribed in section 9 of the Federal Reserve Act, as amended.

SEC. 20. Paragraph (c) of section 5155 of the Revised Statutes, as amended, is amended to read as follows:

"(c) A national banking association may with the approval of the Comptroller of the Currency establish and operate new branches within the limits of the city, town,

or village, or at any point within the State in which said association is situated, if such establishment and operation are at the time expressly authorized to State banks by the law of the State in question and subject to the restrictions as to location imposed by the law of the State on State banks. No such association shall establish a branch outside of the city, town, or village in which it is situated unless it has a paid-in and unimpaired capital stock of not less than $500,000: *Provided,* That in States with a population of less than one million, and which have no cities located therein with a population exceeding one hundred thousand, the capital shall be not less than $250,000."

Paragraph (d) of section 5155 of the Revised Statutes, as amended, is amended to read as follows:

"(d) The aggregate capital of every national banking association and its branches shall at no time be less than the aggregate minimum capital required by law for the establishment of an equal number of national banking associations situated in the various places where such association and its branches are situated."

SEC. 21. Sections 1 and 3 of the Act entitled "An Act to provide for the consolidation of national banking associations," approved November 7, 1918, as amended, are amended by striking out the words "county, city, town, or village" wherever they occur in each such section, and

inserting in lieu thereof the words "State, county, city, town, or village."

SEC. 22. The first two sentences of section 5197 of the Revised Statutes are amended to read as follows:

"Any association may take, receive, reserve, and charge on any loan or discount made, or upon any notes, bills of exchange, or other evidences of debt, interest at the rate allowed by the laws of the State, Territory, or District where the bank is located, or at a rate of 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal reserve bank in the Federal reserve district where the bank is located, whichever may be the greater, and no more, except that where by the laws of any State a different rate is limited for banks organized under State laws, the rate so limited shall be allowed for associations organized or existing in any such State under this title. When no rate is fixed by the laws of the State, or Territory, or District, the bank may take, receive, reserve, or charge a rate not exceeding 7 per centum, or 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal reserve bank in the Federal reserve district where the bank is located, whichever may be the greater, and such interest may be taken in advance, reckoning the days for which the note, bill, or other evidence of debt has to run."

SEC. 23. The second sentence of the first paragraph of section 5200 of the Revised Statutes, as amended, is amended by inserting before the period at the end thereof the following: "and shall include in the case of obligations of a corporation all obligations of all subsidiaries thereof in which such corporation owns or controls a majority interest."

SEC. 24. Section 5211 of the Revised Statutes, as amended, is amended by adding at the end thereof the following new paragraph:

"Each national banking association shall obtain from each of its affiliates other than member banks and furnish to the Comptroller of the Currency such reports not less than three reports during each year, in such form as the Comptroller may prescribe, verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, disclosing the information hereinafter provided for as of dates identical with those for which the Comptroller shall during such year require the reports of the condition of the association. For the purpose of this section the term 'affiliate' shall include holding company affiliates as well as other affiliates. Each such report of an affiliate shall be transmitted to the Comptroller at the same time as the

corresponding report of the association, except that the Comptroller may, in his discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Comptroller of the Currency shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the association under the same conditions as govern its own condition reports. The Comptroller shall also have power to call for additional reports with respect to any such affiliate whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of the conditions of the association with which it is affiliated. Such additional reports shall be transmitted to the Comptroller of the Currency in such form as he may prescribe. Any such affiliated bank which fails to obtain and furnish any report required under this section shall be subject to a penalty of $100 for each day during which such failure continues."

SEC. 25. (a) The first paragraph of section 5240 of the Revised Statutes, as amended, is amended by inserting before the period at the end thereof a colon and the following proviso: "*Provided*, That in making the examination of any national bank the examiners shall include such an examination of the affairs of all its affiliates other than member banks as shall be necessary to disclose fully the relations between such bank and such affiliates and the effect of such relations upon the affairs of such bank; and in the event of the refusal to give any information required in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, all the rights, privileges, and franchises of the bank shall be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended. The Comptroller of the Currency shall have power, and he is hereby authorized, to publish the report of his examination of any national banking association or affiliate which shall not within one hundred and twenty days after notification of the recommendations or suggestions of the comptroller, based on said examination, have complied with the same to his satisfaction. Ninety days' notice prior to such publicity shall be given to the bank or affiliate."

(b) Section 5240 of the Revised Statutes, as amended, is further amended by adding after the first paragraph thereof the following new paragraph:

"The examiner making the examination of any affiliate of a national bank shall have power to make a thorough examination of all the affairs of the affiliate, and in doing so he shall have power to administer oaths and to examine

any of the officers, directors, employees, and agents thereof under oath and to make a report of his findings to the Comptroller of the Currency. The expense of examinations of such affiliates may be assessed by the Comptroller of the Currency upon the affiliates examined in proportion to assets or resources held by the affiliates upon the dates of examination of the various affiliates. If any such affiliate shall refuse to pay such expenses or shall fail to do so within sixty days after the date of such assessment, then such expenses may be assessed against the affiliated national bank and, when so assessed, shall be paid by such national bank: *Provided, however,* That, if the affiliation is with two or more national banks, such expenses may be assessed against, and collected from, any or all of such national banks in such proportions as the Comptroller of the Currency may prescribe. If any affiliate of a national bank shall refuse to permit an examiner to make an examination of the affiliate or shall refuse to give any information required in the course of any such examination, the national bank with which it is affiliated shall be subject to a penalty of not more than $100 for each day that any such refusal shall continue. Such penalty may be assessed by the Comptroller of the Currency and collected in the same manner as expenses of examinations."

SEC. 26. In any case in which, in the opinion of the Comptroller of the Currency, it would be to the advantage

of the depositors and unsecured creditors of any national banking association whose business has been closed, for such association to resume business upon the retention by the association, for a reasonable period to be prescribed by the Comptroller, of all or any part of its deposits, the Comptroller is authorized, in his discretion, to permit the association to resume business if depositors and unsecured creditors of the association representing at least 85 per centum of its total deposit and unsecured credit liabilities consent in writing to such retention of deposits. Nothing in this section shall be construed to affect in any manner any powers of the Comptroller under the provisions of law in force on the date of enactment of this Act with respect to the reorganization of national banking associations.

SEC. 27. Whenever, in the opinion of the Comptroller of the Currency, any director or officer of a national bank, or of a bank or trust company doing business in the District of Columbia, or whenever, in the opinion of a Federal reserve agent, any director or officer of a State member bank in his district shall have continued to violate any law relating to such bank or trust company or shall have continued unsafe or unsound practices in conducting the business of such bank or trust company, after having been warned by the Comptroller of the Currency or the Federal reserve agent, as the case may be, to discontinue such violations

of law or such unsafe or unsound practices, the Comptroller of the Currency or the Federal reserve agent, as the case may be, may certify the facts to the Federal Reserve Board. In any such case the Federal Reserve Board may cause notice to be served upon such director or officer to appear before such board to show cause why he should not be removed from office. A copy of such order shall be sent to each director of the bank affected, by registered mail. If after granting the accused director or officer a reasonable opportunity to be heard, the Federal Reserve Board finds that he has continued to violate any law relating to such bank or trust company or has continued unsafe or unsound practices in conducting the business of such bank or trust company after having been warned by the Comptroller of the Currency or the Federal reserve agent to discontinue such violation of law or such unsafe or unsound practices, the Federal Reserve Board, in its discretion, may order that such director or officer be removed from office. A copy of such order shall be served upon such director or officer. A copy of such order shall also be served upon the bank of which he is a director or officer, whereupon such director or officer shall cease to be a director or officer of such bank: *Provided*, That such order and the findings of fact upon which it is based shall not be made public or disclosed to anyone except the director or officer involved and the directors of the bank involved, otherwise than in connection with proceedings for a violation of this section. Any such director or officer removed from office as herein provided who thereafter participates in any manner in the management of such bank shall be fined not more than $5,000 or imprisoned for not more than five years, or both, in the discretion of the court.

SEC. 28. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

"Sec. _____. Section 19 of the Federal Reserve Act (United States Code, Title 12, Sections 461 to 466, inclusive, and Section 374), as amended, is further amended and reenacted to read as follows:

'RESERVES OF MEMBER BANKS.

'Section 19, (a) Each member bank shall establish and maintain reserves equal to five per centum (5%) of the amount of its net deposits, plus fifty per centum (50%) of the amount of its average daily debits to deposit accounts; Provided, That any member bank, at its option,

'(b) Each member bank located in the vicinity of a Federal reserve bank or branch thereof shall maintain not less than four-fifths of its total required reserves in the form of a reserve balance on deposit with the Federal reserve bank, and every other member bank shall maintain not less than two-fifths of its total required reserves in the form of a reserve balance on deposit with the Federal reserve bank. The remainder of the total required reserves of each member bank, over and above the amount required to be maintained in the form of a reserve balance on deposit with the Federal reserve bank, may, at the option of such member bank, consist of a reserve balance on deposit with the Federal reserve bank, or of cash owned by such member bank either in its actual possession or in transit between such member bank and the Federal reserve bank: Provided, That the Federal Reserve Board may limit the kinds of cash owned by a member bank which may be counted as part of its required reserves; and Provided further, when, in its judgment the public interest so requires, the Federal Reserve Board may limit to an amount less than that permitted hereunder the amount of cash which any member bank or banks may count as reserve: Provided, however, That in prescribing such limi-

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bank or trust company or has continued unsafe or
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which he is a director or officer, whereupon such director or
officer shall cease to be a director or officer of such bank:
Provided, That such order and the findings of fact upon
which it is based shall not be made public or disclosed to
anyone except the director or officer involved and the direc-

ors of the bank involved, otherwise than in connection with
roceedings for a violation of this section. Any such director
officer removed from office as herein provided who there-
er participates in any manner in the management of such
k shall be fined not more than $5,000 or imprisoned for
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SEC. 28. The right to alter, amend, or repeal this Act
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Reserves--Continued

for any period not less than 90 days, may omit any specific deposit account or accounts from such computation of its reserve requirements if such account or accounts are reported separately to the Federal reserve bank and if a reserve of 50% is maintained against such account or accounts: Provided, however, That, in no event, shall the aggregate reserves required to be maintained by any member bank exceed fifteen per centum (15%) of its gross deposits.

'(b) Each member bank located in the vicinity of a Federal reserve bank or branch thereof shall maintain not less than four-fifths of its total required reserves in the form of a reserve balance on deposit with the Federal reserve bank, and every other member bank shall maintain not less than two-fifths of its total required reserves in the form of a reserve balance on deposit with the Federal reserve bank. The remainder of the total required reserves of each member bank, over and above the amount required to be maintained in the form of a reserve balance on deposit with the Federal reserve bank, may, at the option of such member bank, consist of a reserve balance on deposit with the Federal reserve bank, or of cash owned by such member bank either in its actual possession or in transit between such member bank and the Federal reserve bank: Provided, That the Federal Reserve Board may limit the kinds of cash owned by a member bank which may be counted as part of its required reserves; and Provided further, when, in its judgment the public interest so requires, the Federal Reserve Board may limit to an amount less than that permitted hereunder the amount of cash which any member bank or banks may count as reserve: Provided, however, That in prescribing such limi-

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Provided, That such order and the findings of fact upon which it is based shall not be made public or disclosed to anyone except the director or officer involved and the direc-

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e right to alter, amend, or repeal this Act reserved. If any provision of this Act, thereof to any person or circumstances, remainder of the Act, and the application to other persons or circumstances, shall eby.

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tations, the Federal Reserve Board shall be guided by the general principle that member banks should be permitted to count as reserve, within the limitations of this section, as much cash as they reasonably need in view of the character of their business and their degree of accessibility to the currency facilities of the Federal reserve banks.

'(c) The term "gross deposits", within the meaning of this section, shall include all deposit liabilities of any member bank whether or not immediately available for withdrawal by the depositor, all liabilities for certified checks, cashiers', treasurers' and other officers' checks, cash letters of credit, travelers' checks, and all other similar liabilities, as further defined and specified by the Federal Reserve Board: Provided, however, That, in computing the amount of "gross deposits", (1) amounts shown on the books of any member bank as liabilities of such bank payable to a branch of such bank located in a foreign country or in a dependency or possession of the United States, and (2) liabilities payable only at such a branch, shall be treated as though said liabilities were due to or payable at a nonmember bank.

'(d) The term "net deposits", as used in this section, shall mean the amount of the gross deposits of any member bank, as above defined and as further defined by the Federal Reserve Board, minus the sum of (1) all balances due to such member bank from other member banks and their branches in the United

23 *Provided*, That such order and the findings of fact upon
24 which it is based shall not be made public or disclosed to
25 anyone except the director or officer involved and the direc-

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States and (2) checks and other cash items in process of collection which are payable immediately upon presentation in the United States, within the meaning of these terms as further defined by the Federal Reserve Board.

'(e) The term "average daily debits to deposit accounts," as used in this section, shall mean the average daily amount of checks, drafts, and other items debited or charged by any member bank to any and all accounts included in gross deposits as above defined and as further defined by the Federal Reserve Board, except charges resulting from the payment of certified checks and cashiers', treasurers', and other officers' checks.

'(f) The term "cash" within the meaning of this section, shall include all kinds of currency and coin issued or coined under authority of the laws of the United States.

'(g) The term "reserve balances," as used in this section, shall mean a member bank's actual net balance on the books of the Federal reserve bank representing funds available for reserve purposes under regulations prescribed by the Federal Reserve Board.

'(h) The term "vicinity of a Federal reserve bank or branch thereof," as used in this section, shall mean the city in which a Federal reserve bank or branch thereof is located, until such term is otherwise defined by the Federal Reserve Board: Provided, That, with respect to each Federal reserve bank and each branch thereof, the Federal Reserve Board, from time to time, in its discretion, may either (1) define a specific geographic area

24 which it is based shall not be made public or disclosed to
25 anyone except the director or officer involved and the direc-

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Reserves - Continued

as comprising the vicinity of such Federal reserve bank or branch thereof, within the meaning of this section, or (2) compile a list of member banks which shall be deemed to be located in the vicinity of such Federal reserve bank or branch thereof, within the meaning of this section, and add banks to, or remove banks from, such list, from time to time; Provided, however, That, in defining such areas and compiling such lists, the Federal Reserve Board shall be guided by the general principle indicated in subsection (b) hereof.

'(i) With respect to each member bank, the term "Federal reserve bank", as used in this section, shall mean the Federal reserve bank of the district in which such member bank is located.

'(j) The Federal Reserve Board is authorized and empowered to prescribe regulations defining further the various terms used in this Act, fixing periods over which reserve requirements and actual reserves may be averaged, determining the methods by which reserve requirements and actual reserves shall be computed, and prescribing penalties for deficiencies in reserves. Such regulations and all other regulations of the Federal Reserve Board shall have the force and effect of law and the courts shall take judicial notice of them.

'(k) Subject to such regulations and penalties as may be prescribed by the Federal Reserve Board, any member bank may draw against or otherwise utilize its reserves for the

which it is based shall not be made public or disclosed to anyone except the director or officer involved and the direc-

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rpose of meeting existing liabilities: Provided, however, That, whenever the reserves of any member bank have been continuously deficient for fourteen consecutive calendar days, the Federal Reserve Agent or Assistant Federal Reserve Agent of the district in which such member bank is located shall send to each director of such bank, by registered mail, a letter advising him of such deficiency and calling attention to the provisions of this subsection; and each director of such bank who after receipt of such a letter, assents to or acquiesces in the making of additional loans or investments by such bank before the reserves of such bank shall have been restored to the amount required by this section, shall be held liable in his personal or individual capacity for any and all losses sustained by such bank on any such loans or investments.

'(l) All penalties for deficiencies in reserves incurred under regulations prescribed by the Federal Reserve Board pursuant to the provisions of this Act shall be paid to the Federal reserve bank by the member bank against which they are assessed.

'(m) No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

which it is based shall not be made public or disclosed to anyone except the director or officer involved and the direc-

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'(n) National banks or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States, may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Federal Reserve Board, become member banks of any one of the Federal reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act.

'(o) All acts or parts of acts in conflict with this section are hereby repealed only in so far as they are in conflict with the provisions of this section.'

"There are hereby repealed the provisions of Section 7 of the First Liberty Bond Act, approved April 24, 1917, Section 8 of the Second Liberty Bond Act, approved September 24, 1917, and Section 8 of the Third Liberty Bond Act, approved April 4, 1918 (U.S.Code, Title 31, Section 771) which read as follows:

> 'That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, as amended by the Federal Reserve Act, and the amendments thereof, with reference to the reserves required to be kept by national banking associations and other member banks of the Federal Reserve System, shall not apply to deposits of public moneys by the United States in designated depositaries.'

"This section shall become effective on the first day of the seventh calendar month following the enactment of this Act."

73D CONGRESS
1ST SESSION

S. 245

A BILL

To provide for the safer and more effective use of the assets of Federal reserve banks and of national banking associations, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes.

By Mr. GLASS

MARCH 9 (calendar day, MARCH 11), 1933
Read twice and referred to the Committee on Banking and Currency

Congressional Record, 73d Congress, 1st Session, May 25, 1933 (Senate) at p. 4179:

Mr. Glass: * * * * *

As to the other suggestion, if we confine to their proper business activities these large private concerns whose principal business is that of dealing in investment securities, and so forth, and many of which unloaded millions of dollars of worthless investment securities upon the banks of this country, and deny them the right to conduct the deposit bank business at the same time, there will be no difficulty on the face of the globe in financing any business enterprise that needs to be financed at a profit in this country. Only the other day, in opening my remarks on this bank bill, I referred to the fact that, notwithstanding the protests which came to our Banking and Currency Committee, voicing the very thing now stated by the Senator from Maryland, the largest commercial bank in the world, I believe, the Chase National Bank, without waiting for the enactment of this bill, but very likely prompted by the knowledge that it would be enacted, separated itself from its affiliate, and the very next day the New York papers recorded the fact that those who were chiefly active in the conduct of the affairs of that affiliate were proposing to immediately set up an investment banking house to do the very things that affiliate had been unlawfully doing ever since its establishment.

If there is money in the business, there need be no fear but that large investment houses will be set up in this country, just as they have been in all of the countries of continental Europe, and in England, to be conducted by experienced bankers rather than by blacksmiths and speculators. There will be no difficulty on earth in meeting that issue, and I concur most heartily with my colleague the Senator from Ohio in saying that this is a vital provision of the bill, and that it should not be amended as suggested by the Senator from Maryland."

SENATE COMMITTEE ON BANKING AND CURRENCY
REPORT NO. 77, 73d CONGRESS, 1st
SESSION, JUNE 17, 1933.

By Mr. Glass (p. 9):

"There seems to be no doubt anywhere that a large factor in the overdevelopment of security loans, and in the dangerous use of the resources of bank depositors for the purpose of making speculative profits and incurring the danger of hazardous losses, has been furnished by perversions of the National banking and State banking laws * * *

"(a) The greatest of such dangers is seen in the growth of 'bank affiliates' which devote themselves in many cases to perilous underwriting operations, * * * "

REPORT OF

THE COMMITTEE ON BANKING AND CURRENCY

PURSUANT TO SENATE RESOLUTION 84, 72d CONGRESS
AND SENATE RESOLUTIONS 56 and 97, 73d CONGRESS,
SENATE REPORT NO. 1455, 73d CONGRESS, 2d SESSION
SUBMITTED JUNE 16, 1934.

At pp. 113-114:

"(a) Abuses arising out of the interrelationship of commercial and investment banking. - A prolific source of evil has been the affiliated investment companies of large commercial banks. These affiliates have been employed as instrumentalities by commercial banks to speculate in their own stock, to participate in market operations designed to manipulate the price of securities, and to conduct other operations in which commercial banks are forbidden by law to engage.

"Commercial banks did not hesitate to violate their fiduciary duty to depositors seeking disinterested investment counsel by referring such inquiries to their affiliates. The affiliates unloaded securities owned by them on unsuscepting investors and depositors. The activities of investment affiliates encouraged speculation by officers and directors of commercial banks and resulted in the payment of excessive compensation and profits to these officials."

At pp. 155-156:

"1. THE NATURE OF COMMERCIAL BANKING

"The primary function of commercial banking is to furnish short-term credits for financing the production and distribution of consumable goods. By their nature, such loans should be self-liquidating. A sharp line of demarcation should exist between the function of the commefcial banker and the investment banker. Long-term capital financing for the production of 'durable goods', such as machinery, railroad equipment, building material, and construction work in general, is the proper field of the investment banker, since such loans are not self-liquidating within the

prescribed limits of short-term commercial banking operations. (Clarence Dillon, Oct. 13, 1933, Dillon, Read & Co. pt. 4, pp. 2109-2110)

"As was stated by Winthrop W. Aldrich, president of the Chase National Bank:

* * * This experience as a bank official, coupled with the testimony which was presented to your committee in February of this year had convinced me that many of the abuses in the banking situation had arisen from failure to discern that commercial banking and investment banking are two fields of activity essentially different in nature. I came to believe that while it was essential that there should be coordination between these two types of banking, such coordination could best be protected from abuse and thus enhanced in usefulness through absolute separation of interest between the two fields.

* * * * *

The commercial bank's credit function is very definitely governed by its responsibility to meet its deposit liabilities on demand. It must not seek excessive profits by taking undue credit risks and it cannot wisely tie up its funds in long-term credits however safe they may be. Its primary credit function is performed by lending money for short periods to finance self-liquidating commercial transactions, largely in the movement of goods and crops through the various stages of production and distribution; and in the making of short-term loans against good collateral. The commercial bank cannot safely make loans to a borrower who lacks capital of his own or who cannot in the normal course of his business repay the loan within a reasonable period of time. It is within this framework that the commercial bank renders sound and constructive service to the industry, trade, and agriculture of the country.

The investment banker also renders necessary and ef-

fective service to the industry, trade, and agriculture of the country. He does it by meeting long-term needs, providing funds for plan and equipment or for permanent working capital. He does, and should, take speculative risks of a sort unsuitable to the commefcial bank in providing capital funds for new and promising enterprises, even though the major volume of his transactions is naturally to be found in providing additional capital for industries well established and less uncertain of their prospects. With every new issue, moreover, he takes the risk that the public may not readily absorb the new securities which he brings out and that his own capital may be tied up for a long period of time. This last distinction between investment and commercial banking emphasizes the wisdom of the legislation forbidding investment bankers from taking deposits. (Statement of Winthrop W. Aldrich, Nov. 29, 1933, Chase Securities Corporation, pt. 8, pp. 3977, 3979).

2. COMMERCIAL BANKS AND SECURITIES SPECULATION

"The role played by commercial banks in securities speculation, particularly during the speculative period from 1926 to 1929, and the legislative regulation of these activities, has already been detailed in this report. It is generally conceded that the flow of credit of thecommercial banks in the form of brokers' loans, the financing of syndicate or pool operations in securities, and loans on securities as collateral accentuated the speculative excesses during the boom period. The consequent disastrous results affected not only the investing public, but these banking institutions, whose capital was substantially impaired by the collapse and shrinkage of values of securities into which banks had frozen a large part of their funds.

"The indulgence by commercial bankers in these security loans involved their institutions in such huge losses

as to directly cause their banks to close, as was the case with the group-banking holding companies of Detroit and Cleveland. (For a detailed discussion of the bank credit and securities speculation, see ch. I, sec. 4, of this report. For a detailed discussion of group banking, see sec. 6 of this chapter).

3. COMMERCIAL BANKING AND INVESTMENT BANKING

"Commercial banks not only played a vital part in securities transactions by the extension of credit to carry on these activities, but directly engaged, in circumvention of the law, through the medium of their investment affiliates, in securities and other transactions prohibited to commercial banks. This participation of commercial banks in the investment-banking field ultimately resulted in such gross abuses and malpractices, and occasioned such losses to the banking institutions and the investing public, that the banking act of 1933 was passed divorcing commercial banking from investment banking institutions"

At pp. 163-166:

"4. ABUSES

"(a) Abuses arising out of investment affiliates.- The creation of investment affiliates by commercial banks was undesirable not only because these affiliates circumvented the law but because these affiliates created conditions and situations which were detrimental both to the investing public and to the banking institutions. Possessed with this instrumentality that enabled these banking institutions to conduct a business and indulge in practices which governmental authority through legislative enactment had forbidden to commercial banks, these banking institutions, infected with speculative fervor, indulged in practices and transactions which had the direst consequences.

(1) Violation of fiduciary duty to depositors and

investors. - Commercial banks found a fertile field among its depositors for purchasers of security issues which their investment affiliates were sponsoring. These banks, violating their fiduciary duty to depositors seeksing disinterested investment counsel from their bankers, referred these depositors to the affiliates for advice. These depositors were then sold securities in which the affiliates had a pecuniary interest.

Hugh B. Baker, president of the National City Co., testified:

Mr. Pecora. Now, Mr. Baker, do you know that frequently depositors of a bank seek the advice of officers of their bank with respect to making invesments?

Mr. Baker. Yes, sir.

Mr. Pecora. And in order for a bank to give that kind of advice disinterestedly it should not be interested in pushing any particular security, should it?

Mr. Baker. Well, I think it is distinctly to the advantage of a bank if it has the benefit of the study of securities which our organization, we thought, was able to give.

Mr. Pecora. Isn't every well-organized and functioning bank possessed of certain facilities for informing its clients of security issues generally - I mean the soundness of security issues generally?

Mr. Baker. It is, but, of course, that is in the matter of degree. There is a tremendous amount of study and research work required in the development of issues of securities and then in following their progress afterward.

Mr. Pecora. Mr. Baker, you would not hesitate to say, would you, that the advice which a bank gives to a depositor, in response to the depositor's request for such advice concerning investments, should be wholly unselfish and disinterested on the part of the bank and should be designed to serve the de-

positor's interests?

Mr. Baker. It should certainly serve the depositor's interests all the time.

Mr. Pecora. And do you think that a bank which has an affiliation with an investment company, sponsoring its own issues or the issues of others, is in a position to give that kind of unselfish and disinterested advice to a depositor seeking such advice?

Mr. Baker. I think so.

Mr. Pecora. Do you recognize that to such a bank and its officers and employees there is the temptation of favoring the securities in which its affiliate is interested?

Mr. Baker. That may be true, but the --

Mr. Pecora (interposing). Well, it is true, isn't it?

Mr. Baker. But the point is, as I see it, that where the investment house has the facilities to determine the value of securities, that is a distinct advantage to have.

Mr. Pecora. But the investment house has not given the same consideration to all securities offered to the public as it has to those in which it is particularly interested, has it?

Mr. Baker. That is right.

Mr. Pecora. So that a bank with that kind of investment affiliate, functioning even through the bank's own branches, is in the position of having the affiliate particularly interested in certain issues of which it has made a special study and of having the temptation always present to advise a depositor seeking its advice for investment purposes to invest in the securities which its investment affiliate is sponsoring.

Mr. Baker. There is no doubt about that, and yet --

Mr. Pecora (interposing). And to that extent isn't there always lurking the danger that the depositor seeking disinterested advice won't get it?

Mr. Baker. That depends upon the ability of the investment

banking house in its research work, and in its investment in securities it recommends, to try to keep on hand a diversified list that will fit all classes of investors.

Mr. Pecora. Mr. Baker, do you still think it is good banking practice for a bank to have itself so interwoven with an investment affiliate, as the National City Bank is with the National City Co.?

Mr. Baker. Yes, sir.

Mr. Pecora. You do?

Mr. Baker. Yes, sir. (Hugh B. Baker, Feb. 23, 1933, National City, pt. 6, pp. 1942-1943)

* * * * *

Mr. Baker. A customer of the bank, let us say, in talking to some officer in the bank indicates that he is interested in making some investments. That would be transmitted to the National City Co., and that name would be called upon immediately.

Mr. Pecora. So that when a depositor of the bank went to the bank seeking advice on matters of investments the name of that customer or depositor would be transmitted by the bank's representative to the company?

Mr. Baker. The probabilities are that it would; yes, sir.

Mr. Pecora. And that is the way the bank would advise such an inquirer on matters of investments?

Mr. Baker. It all depends on the nature of the inquirer.

Mr. Pecora. If it was an inquiry for the making of investments that was the way he would be advised frequently?

Mr. Baker. I think he would say that 'the investment part of this organization is the National City Co. and I would be glad to refer you to them,' some particular name.

Mr. Pecora. And if that depositor or customer then followed up that suggestion by calling upon the National City Co. for advice as to his investments, it was not an unusual thing for the

National City Co. to suggest investment in securities that the company was sponsoring, was it?

Mr. Baker. That is right.(Hugh B. Baker, Feb. 24, 1933, National City, pt. 6, p. 2019).

Not only did the managers and employees of the banks recommend prospective customers to the salesmen of the investment companies but these bank employees directly sold securities to customers, the branch banks receiving a service allowance on such sales. (Hugh B. Baker, supra, p. 2017).

Mr. Pecora. As president of the bank did you give any instructions or directions to the employees of the bank in any of its branches to sell stock of the bank for the account of the National City Co.?

Mr. Rentschler. Branch of the bank managers? No.

Mr. Pecora. Are you quite sure of that, Mr. Rentschler?

Mr.Rentschler. The mangers or the bank officers themselves directly are not selling stock of any kind. It may be that there may be instances where a branch officer might find a customer who wanted to buy this or that and he would turn him over to a City Co. man to effect the sale.

* * * * *

Mr. Pecora. I have before me what is described as the annual report of the National City Co. and its subsidiary corporations for the year ended December 31, 1929, summarizing the operating results and various activities of the year, and on the last page thereof appears this statement:

'With the closing of our Jacksonville (Fla.) office 69 district and representative offices were in operation at the year end, all served either directly or indirectly by our private-wire system of 11,386 miles. Sales facilities are also available at 26 of the bank's Greater New York City branches, each connected with our home office by private line, telephone, or teletype service.'

* * * *

'This makes a total of 95 points offering National City Co. facilities to investors through its own staff, proof of the excellent service rendered for our account by bank employees at offices where City Co. men are not yet located.'

* * * *

Mr. Pecora. Did that bring home to you knowledge for the first time that the employees of the bank were supplementing the selling efforts of the sales force of the company in the sale of securities in which the company was engated?

Mr. Rentschler. Yes; they would take orders for them, unquestionably.

Mr. Pecora. I did not ask you if they would take orders. I asked you if you learned for the first time that that was being done.

Mr. Rentschler. No.

Mr. Pecora. Well, you knew of it currently, didn't you?

Mr. Rentschler. Certainly.

Mr. Pecora. Was that done with your consent and knowledge and approval as president of the bank?

Mr. Rentschler. Yes, I knew that was the practice.

Mr. Pecora. You approved of it?

Mr. Rentschler. Surely. (Gordon S. Rentschler, Feb. 22, 1933, National C ity, pt. 6, pp. 1885-1886).

The investment affiliates developed the most effective machinery for the distribution of securities, employing many salesmen throughout the Nation to quickly sell the security issues which were either sponsored by the affiliates or in which they had a pecuniary interest. By far the greatest part of the business of the National City Co. was the selling of securities to the general public. (Charles E. Mitchell, Feb. 21, 1933, National City, pt. 6, p. 1765) Over a 10-year period the National City Co. sold on an average a billion and a half dollars of securities a year to the general public. (Charles E. Mitchell, supra, p. 1766)."

At p. 185:

"(b) DIVORCEMENT OF COMMERCIAL BANKS FROM INVESTMENT AFFILIATES BY THE BANKING ACT OF 1933

The Banking Act of 1933, enacted on June 16, 1933, was promulgated to effect a complete severance of the commercial and investment banking functions and to eradicate many of the abuses disclosed at the hearings before the Senate subcommittee.

Section 20 of the Banking Act of 1933 provides:

SEC. 20. After one year from the date of the enactment of this Act, no member bank shall be affiliated in any manner described in section 2 (b) thereof with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities. (Banking Act of 1933, sec. 20)

Section 2 (b) of the Banking Act of 1933 provides:

(b) Except where otherwise specifically provided, the term 'affiliate' shall include any corporation, business trust, association, or other similar organization -

(1) Of which a member bank, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 per centum of the number of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions; or

(2) Of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a member bank who own or control either a majority of the share of such bank or more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election, or by trustees for the benefit of the

shareholders of any such bank; or

(3) Of which a majority of its directors, trustees, or other persons exercising similar functions are directors of any one member bank. (Banking Act of 1933, Sec. 2 (b).)

In order to effectuate this divorcement, section 18 of the Banking Act of 1933 provides:

After one year from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any such association shall represent the stock of any other corporation, except a member bank or a corporation existing on the date this paragraph takes effect engaged solely in holding the bank premises of such association, or shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank. (Banking Act of 1933, sec. 18).

The Banking Act of 1933 is an expression of the legislative policy of complete divorcement of commercial banking from investment banking. Further legislation may be required to completely effectuate this policy."

And at pp. 228-229:

(c) PRIVATE BANKING AND INVESTMENT BANKING.

Private bankers heretofore have been permitted to directly engage in the investment banking business without resorting, as the commercial banks had to do, to the medium of investment affiliates. (For a detailed discussion of the investment-banking business conducted by private bankers see ch. II of this report).

Winthrop W. Aldrich attributed the abuses arising out of the investment affiliates of commercial banks to the dual function of private bankers of commercial banking and investment banking.

Aldrich stated:

A principal difficulty in the past has been that commercial banks doing an investment banking business have been paralleled in operation by private bankers doing a deposit and investment business. As there was no clear definition of function or differentiation in interest between the two types of banking, it was not natural that officers of commercial banks should have at times failed to appreciate the distinction between their own position and that of members of private banking firms. The system itself which permitted overlapping of function and interlocking of interests between these two types of banking has been responsible for much that the public now condemns. (Statement of Winthrop W. Aldrich, Nov. 29, 1933, Chase Securities Corporation, pt. 8, p. 3978).

The evils inherent in the conduct by an incorporated bank, through an investment affiliate, of an investment banking business are equally ingrained in the conduct by a private banker accepting deposits of an investment banking business. The reasons impelling the divorcement of investment banking from incorporated commercial banks are equally cogent for the divorcement of investment banking from private bankers doing a commercial banking business."

EXCERPT FROM STATEMENT OF WINTHROP W. ALDRICH, President of Chase National Bank, given before the Senate Commitee on Banking and Currency, 73d Congress, 2d Session, on November 29, 1933.

At p. 3977:

"I

THE WISDOM OF SEPARATING COMMERCIAL BANKING FROM INVESTMENT BANKING

My experience as a bank official commenced at the end of the year 1929, when I became president of the Equitable Trust Co. From June 1930 upon the amalgamation of that institution with The Chase National Bank, until January 1933 I was president of the Chase National Bank but not its executive head. In January, 1933, I became its executive head, upon my election as chairman of the governing board. This experience as a bank official, coupled with the testimony which was presented to your committee in February of this year had convinced me that many of the abuses in the banking situation had arisen from failure to discern that commercial banking and investment banking are two fields of activity essentially different in nature. I came to believe that while it was essential that there should be coordination between these two types of banking, such coordination could best be protected from abuse and thus enhanced in usefulness through absolute separation of interest between the two fields.

On March 8, 1933, therefore, I issued a public statement suggesting the following provisions, among others, which experience indicated should be enacted into law. These were in addition to the provisions of the Glass-Steagall bill as it then stood, which required the divorcement by commercial banks of their investment affiliates:

1. No corporation or partnership should be permitted to take deposits unless such corporation or partnership is subjected to the same regulations and required to publish the same statements as are commercial banks.

2. No corporation or partnership dealing in securities should be permitted to take deposits even under regulation.

3. No officer or director of any corporation nor any member of any partnership dealing in securities should be permitted to be an officer or director of any commercial bank or bank taking deposits, and no officer or director of any commercial bank or bank taking deposits should be permitted to be an officer or director of any corporation, or a partner in any partnership engaged in the business of dealing in securities.

4. Boards of directors of commercial banks should be limited in number by statute so as to be sufficiently small to enable the members to be actually cognizant of the affairs of their banks and in a position really to discharge their responsibility to stockholders, depositors, and the business community.

The spirit of speculation should be eradicated from the management of commercial banks, and commercial banks should not be permitted to underwrite securities except securities of the United States Government and of states, territories, municipalities and certain other public bodies in the United States."

Immediately following the issuance of the foregoing statement, the Chase National Bank undertook for itself to carry these policies into effect.

On March 8, 1933, the executive committee of the bank appointed a special committee to advise and recommend a plan for the separation from the bank, at as early a date as practicable, of its affiliated securities corporations. Following action by the executive committee, a meeting of the stockholders on May 16, 1933, authorized the discontinuance of the securities business by the bank's affiliates, and on the same day the securities affiliate, the Chase Harris Forbes Corporation, formerly voted to engage thenceforth in no new

business, and to liquidate its affairs. The Chase Securities Corporation thereafter became the Chase Corporation, simply a holding and liquidating company, relinquishing its power to engage in the securities business. The bank itself took over in its bond department that part of the business of the Chase Harris Forbes Corporation relating solely to Federal, State, and municipal bonds, and other limited classes of securities approved by law as proper for national banks to deal in.

It was also voted at the meeting of the shareholders of the bank held May 16th that the size of the bank's board of directors should be reduced from 72 to 36 members. In the reconstruction of the board of directors under that decision all members of investment banking houses who had been directors retired from the board.

Such changes as the foregoing obviously involved a break with tradition. There are sincere differences of opinion as to the wisdom of these changes. There is, as every one recognizes, a very influential body of banking opinion which honestly and seriously believes that the functions of investment banking and commercial banking can, with great advantage to the public, be performed by the same institution or private banking firm. That view isentitled to respect.

The thought, however, that the overlapping of interest as between commercial banking and investment banking might be subject to grave danger was not in any sense a new one. The hearings and the report of the Pujo committee, dated February 28, 1913, had pointed out the desirability for such changes. Any wise observer must realize that investment banking, as a self-contained enterprise, not only should not be destroyed or superseded by any governmental agency, but also should be allowed to operate with as little restriction as is commensurate with due protection to the investing public.

Normal investment banking should, however, be improved if separated from any direct interest in commercial banking.

A principal difficulty in the past has been that commercial banks doing an investment banking business have been paralleled in operation by private bankers doing a deposit and investment business. As there was no clear definition of function or differentiation in interest between the two types of banking, it was not unnatural that officers of commercial banks should have at times failed to appreciate the distinction between their own position and that of members of private banking firms. The system itself which permitted overlapping of function and interlocking of interests between these two types of banking has been responsible for much that the public now condemns.

A commercial bank, whether or not it is a member of the Federal Reserve System, is an essential and integral part of the monetary and credit machinery of the National. Of course the commercial banks are under obligation to endeavor to earn a fair return upon the money entrusted to them as capital of their stockholders. The desire to protect that capital and to earn a return upon their investment for the stockholders has the effect of making the commercial banks not only anxious to extend credit but also cautious and onservative in seeking to assure as far as possible that the credit so extended shall be repaid. It is accordingly obvious that the commercial banker should have the utmost enccouragement by the Government to exercise all of the sound judgment, the constructive imagination, and the creative thinking which he can bring to the stimulation of private enterprise in extending credit.

The commercial bank's credit function is very definitely governed by its responsibility to meet its deposit liabilities on demand. It must not seek excessive profits by taking

undue credit risks and it can not wisely tie up its funds in long-term credits however safe they may be. Its primary credit function is performed by lending money for short periods to finance self-liquidating commercial transactions - largely in the movement of goods and crops through the various stages of production and distribution; and in the making of short-term loans against good collateral. The commercial bank cannot safely make loans to a borrower who lacks capital of his own or who cannot in the normal course of his business repay the loan within a reasonable period of time. It is within this framework that the commercial bank renders sound and constructive service to the industry, trade and agriculture of the country.

The investment banker also renders necessary and effective service to the industry, trade and agriculture of the country. He does it by meeting long-term needs, providing funds for plant and equipment or for permanent working capital. He does, and should, take speculative risks of a sort unsuitable to the commercial banking providing capital funds for new and promising enterprises, even though the major volume of his transactions is naturally to be found in providing additional capital for industries well established and less uncertain in their prospects. With every new issue, moreover, he takes the risk that the public may not readily absorb the new securities which he brings out and that his own capital may be tied up for a long period of time. This last distinction between investment and commercial banking emphasizes the wisdom of the legislation forbidding investment bankers from taking deposits.

Although there should be a sharp delineation between the activities of commercial banks and those of investment bankers, there are certain points of contact between them, whereby they

complement each other. It is perfectly proper, for example, that commercial banks should lend to investment bankers, on short term, funds necessary to carry a new issue of securities while it is in the process of being marketed. Such a loan, always secured by collateral and carefully scrutinized by the commercial bank, performs an essential service. The commercial bank or banks making such a loan, however, should be absolutely free from interest in the issue, and immunized from possible influence arising from interlocking interests with the investment bankers participating in it.

Again, a commercial bank frequently finds that its own customers require permanent financing. A rapidly growing business needs additional permanent working capital. The commercial bank properly affords temporary financing to the enterprise, but permanent provision for adequate working capital or for plant or equipment requires long-term credit. When such long-term credit is required, the services of the investment banker are needed. But in such cases the investment banker himself should be free from control or influence by the commercial bank which suggests or introduces the business. The investment banker should be in a position to form an absolutely independent judgment as to the wisdom of issuing the credit and as to the conditions under which it shall be issued. The commercial bank should not be in a position to exert any pressure whatever arising out of a dual financial interest.

What I have said with regard to the relationship between commercial and investment banking does not imply that such influence as I have described would necessarily or even usually be exercised in a manner detrimental to the public interest either by the investment bankers in the one case or the commercial banks in the other. Nor does it suggest that there are not conscientious investment bankers, meticulously careful

of both the interests of their customers and of the investing public.

Nor is what I have said intended as a sweeping criticism of the motives or practices of investment bankers generally. Any such criticism would be most unjust. But in considering legislation aimed at prohibiting practices pontrary to the public interest, it is impossible to draw a distinction between the careful and conscientious banker who would never consciously permit his influence to be misused or his allegiance to be divided, and the banker, who, through recklessness or even because of his private interests, might exercise his influence improperly, if opportunity is permitted to exist.

* * * * * * * * * * * * *

II.

CHANGES NECESSARY TO MAKE THE BANKING ACT OF 1933 ACCOMPLISH ITS DECLARED OBJECTIVES

Thewisdom of effecting a clear differentiation of function and separation in interest between commercial banking and investment banking was recognized in the Glass-Steagall Bill, passed last June and now known as the Banking Act of 1933. The history of that act and its general provisions indicate a clear intent on the part of the Congress to effect, once and for all, a complete separation between commercial banks and investment bankers. I believe that the public is likewise under the impression that the act effectively accomplished that purpose."

SECTION 2. Definitions.

This section contains definitions. These definitions are substantially in the form recommended by the Federal Reserve Board, except that the institutions included in the definitions of the terms "affiliate" and "holding company affiliate" as contained in the new bill were all included in the definition recommended by the Board of the single term "affiliate."

It has been pointed out that the language of this section is so embracing it might be found that many large business houses could be classed as affiliates of a member bank, and it seems reasonably certain that throughout the country many smaller paper companies, ice companies, gas companies, woolen mills, mutual savings banks and the like, would be found legally to be affiliates of smaller banks. We can appreciate the Board's reasons for suggesting such an embracing description of affiliates but in recommending this definition the Board also recommended that reports by and examinations of affiliates of member banks be required only when deemed necessary to disclose fully the relations between such banks and their affiliates or the effect of such relations upon the affairs or the management or condition of such banks. The new bill has adopted the broad definition of affiliates recommended by the Board but has made it mandatory that all affiliates of member banks furnish reports and be examined. As we state later in this memorandum in discussing certain provisions of the new bill relating to such reports and examinations, we believe it is undesirable thus to require reports by and examinations of corporations which are engaged in purely industrial businesses and are not carrying on any banking or financial operations, and the relations of which to the member banks do not affect the condition or the management of such banks. If the mandatory provisions in reference to statements and examinations are not going to be amended, the following should be added to the end of the sentence on line 7 page 2 "engaged primarily in financial or security business."

SECTION 1. Title.

This section merely provides that the short title of the new bill shall be the "Banking Act of 1933."

S ff 1/2

Section 3 (a). Control of use of Federal Reserve Bank credit and member bank credit.

This section would amend the paragraph of Section 4 of the Federal Reserve Act which begins: "Said board shall administer the affairs of said bank fairly and impartially." The section is in the form recommended by the Federal Reserve Board and is directed toward giving the Federal Reserve System more power to restrain the use of credit in speculation.

The question may be raised whether any amendment to the Federal Reserve Act is necessary to give the System all the power in this direction which it may wisely and effectively exercise. The view has been expressed, however, that some further definition of the powers of credit control is advisable. We believe that this purpose can be accomplished best by a briefer and less detailed provision. To this end we suggest the elimination from this section of the new bill of all matter after the period in line 4 on page 4 through line 23 on page 4. If this suggestion were adopted the amended paragraph would read as follows:

> "Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and may, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. The Federal Reserve Board may prescribe regulations further defining within the limitations of this Act the conditions under which discounts, advancements and accommodations may be extended to member banks."

We make this suggestion for the following reasons:

(1) The paragraph we suggest would give ample authority for any necessary or desirable action. The matter that we suggest striking out is largely a definition of action which might be taken under the preceding provisions.

(2) The important general principle in legislation of this sort is that the law should be unmistakeable in its grant of power, but should leave wide latitude to the administrative authorities as to the procedure to be adopted in the exercise of this power. The Board's letter of March 29, 1932, to Senator Norbeck stated this principle in the discussion of the open market section. The principle has been generally followed in other parts of the Federal Reserve Act. There are, for example, in the present law no detailed instructions as to the use of the discount rate or specific directions under which open market operations should be pursued. Similarly, it seems undesirable that detailed provisions should be enacted as to methods or circumstances of applying direct action. Not only is it always dangerous to attempt to predict in advance the form that action should take and the conditions which should determine it, but an attempt to do this with respect to direct action and not with other instruments of credit policy tends to place undue weight upon that instrument.

(3) There is grave danger that the insertion of detailed provisions relating to direct action will make more difficult vigorous discount rate action, because direct action will be suggested as a substitute.

(4) The matter that we suggest omitting would place on the Reserve System an obligation, not only for governing the use of its own credit but for supervising the general use of bank credit. This would involve conflict with other supervisory authorities and the incurring of responsibility which the Reserve System should be reluctant to undertake. There would be danger that these provisions would be construed as fixing responsibility upon the Federal Reserve Banks and the Board for determining and correcting every undue extension of bank credit by a member bank.

(5) The last sentence of the paragraph as contained in S. 4412 would place on the Board a direct responsibility for dealing with the operation and management of individual member banks which is out of keeping with the general theory that the Board should be a supervisory body rather than an operating body.

(6) We do not know how many steady boarders there are in the Federal Reserve System at the present time, but do recall that in 1929 the number was 1800 or more. To call any such number of institutions before the Federal Reserve Board in 1929 would have been a physical impossibility; in fact, one-tenth of the number would have taxed the capacity of the Board. The number of banks in the Federal Reserve System that now can be classified as steady boarders must represent a large number. Whether continuous borrowing at the Federal reserve bank in periods of deflation can be construed as undue use of bank credit may be a debatable question, but it seems to us that the language of the Glass Bill is such that no discrimination is made between periods of inflation and periods of deflation, and that the Board would have to attempt to function in the same way under both conditions. The present situation is one that requires patient nursing with many of the member banks and it would appear to us that the reserve banks are better able to cope with the situation than is the Federal Reserve Board.

Section 3 (b). Voting by groups or chains in elections of Federal Reserve Bank directors.

We assume that this provision is put in to prohibit the control of any Federal reserve bank by any one interest and it seems to us that it might better be handled by amending Section 4 of the Federal Reserve Act by inserting after the paragraph beginning "Such board of directors shall be selected as hereinafter specified," a new paragraph to read as follows:

> "No person who is connected with any bank as an officer, director, employee, or stockholder, shall be eligible to serve as a director of a Federal reserve bank, if at the same time any other person who is connected in any such capacity with the same bank or with any other bank which is an affiliate of such bank, or the stock of which is directly or indirectly owned or controlled by, or held by any trustee for the benefit of the shareholders or members of the same holding company affiliate, as defined in Section 2 of the Banking Act of 1933, is serving as a director of such Federal reserve bank."

Section 4. Distribution of earnings of Federal Reserve Banks.

This section would amend Section 7 of the Federal Reserve Act so as to provide that all net earnings of a Federal Reserve Bank, after payment of dividend claims and expenses, shall be paid into the surplus fund of the Federal Reserve Bank, thereby eliminating the provision for the payment of franchise tax to the United States.

We approve of this section.

Section 5 (a). Branches of state member banks.

This section would amend the second paragraph of Section 9 of the Federal Reserve Act so as to provide that nothing contained in the act shall prevent state member banks from establishing branches either in the United States or elsewhere upon the same terms and conditions as those applicable to branches of National banks. At the present time the second paragraph of Section 9 of the Federal Reserve Act prohibits state member banks from establishing branches beyond the limits of the city, town, or village in which the parent bank is situated, although national banks are permitted to establish foreign branches.

This amendment has been recommended by the Federal Reserve Board and we agree that its enactment would be desirable.

Section 5 (b). Reports of affiliates of state member banks.

Section 24. Reports of affiliates of national banks.

Section 5 (b) of the new bill would add to Section 9 of the Federal Reserve Act several paragraphs relating to reports of affiliates of state member banks, and Section 24 of the new bill would amend Section 5211 of the Revised Statutes by adding a paragraph relating to reports of affiliates of national banks. These added provisions would require three reports each year from affiliates of all state member banks and national banks, such reports to contain such information as in the judgment of the Federal Reserve Board (in the case of a state member bank) or of the Comptroller of the Currency (in the case of a national bank) "shall be necessary to disclose fully the relationsbetween such affiliate and such bank and to enable" the Board or the Comptroller to inform itself or himself "as to the effect of such relations upon the affairs of such bank."

The provisions of the new bill with reference to reports of affiliates of member banks are objectionable in two details; first, in making it mandatory upon member banks to require reports to be made by all affiliates (the broad definition of which in Section 2 of the new bill would include many industrial corporations as well as corporations engaged in banking or financial operations) and second, in requiring the publication of all such reports. We agree with the Board's recommendation, which was that reports of affiliates should be required only when deemed necessary by the Board "in order to obtain adequate information regarding the relations between" member banks and their affiliates or regarding "the effect of such relations upon the management or condition" of such banks, and which did not contain any requirement that reports of affiliates be published.

Section 5 (b). Dealings in stock and investment securities by state member banks.

Section 15. Dealings in stock and investment securities by national banks.

One of the paragraphs which Section 5(b) of the new bill would add to Section 9 of the Federal Reserve Act provides that -

> "State member banks shall be subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under paragraph 'Seventh' of Section 5136 of the Revised Statutes, as amended."

Section 15 of the new bill would amend paragraph "Seventh" of Section 5136 of the Revised Statutes so as impose after five years from the approval of the Act certain restrictions upon national banks with respect to the purchase, sale, underwriting, and holding of investment securities and stocks, including an absolute prohibition against the underwriting of any issues.

If Section 15 were to become operative immediately (as was provided in S.4412 as originally introduced), we would be definitely opposed to it, because it would greatly restrict the operations of member banks in supporting the capital market and would do much to disorganize and destroy that market. By increasing the difficulty of corporations in obtaining capital funds, this would be bound in some measure to delay business recovery and revival of employment. The available figures indicate that more than half of the underwriting and original distribution of issues of new securities has in recent years been done by banks and bank affiliates. At the present time private bankers and dealers are not in a position to increase their share of this load.

Section 15 was, however, amended on the floor of the Senate, so that as passed by the Senate it is not to become effective until five years after the bill becomes law. In this form we see less objection to Section 15, although we still believe that there should be further study of the whole question of the requirements of the long time capital market and the appropriate relationship of banks to that market in order to insure that an effective machinery for the necessary distribution of securities is maintained.

Section 5 (b). Divorce of stock of state member banks from stock of other corporations.

Section 17. Divorce of stock of national banks from stock of other corporations.

Section 19. Divorce of member banks from security affiliates.

Section 5 (b) of the new bill would incorporate in Section 9 of the Federal Reserve Act a provision to the effect that after five years from the passage of the act no certificate of stock of a state member bank shall represent the stock of any other corporation, except a member bank, nor shall the ownership or transfer of a stock certificate of such bank be conditioned upon the ownership or transfer of a certificate of stock of another corporation, except a member bank.

Section 17 of the new bill would add to Section 5139 of the Revised Statutes a similar paragraph with reference to certificates representing stock of national banks.

Section 19 of the new bill provides that after five years from date of enactment of the bill no member bank shall be affiliated in any manner described in Section 2 (b) (which defines an "affiliate" as distinguished from "a holding company affiliate") with "any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities."

The purpose of all these provisions is, of course, to prevent the abuse of the relationship of member banks to security affiliates, and the danger resulting to member banks and to the public generally from such abuse. This is a very important purpose, but we believe it can be accomplished by other legislative provisions, and that the enactment of the provisions of the new bill which we have described above not only would unnecessarily penalize stockholders of banks and

their affiliated corporations which in good faith have already established relationships.

As we indicate elsewhere in this memorandum, we believe that affiliates of member banks should, when this is deemed necessary by the Federal Reserve Board, be required to furnish reports and submit to examination; that loans to affiliates, and investments in or loans on the security of stock of affiliates, should be limited; and that the right of affiliates to vote stock of member banks should be subject to the conditions and restrictions recommended by the Board. Such legislation would, in our judgment, largely remove any danger to member banks from their security affiliates; but to go to the extreme of requiring the complete divorce of member banks from their security affiliates is unnecessary and inadvisable.

Section 5 (b). Right of Holding Company affiliate of a state member bank to vote stock held by it in such bank.

Section 18. Right of Holding Company affiliate of a national bank to vote stock held by it in such bank.

Section 18 of the new bill would amend Section 5144 of the Revised Statutes so as in effect to prohibit national bank stock controlled by a holding company affiliate from being voted unless such affiliate shall have obtained from the Federal Reserve Board a voting permit which is still in force; which permit could be granted only upon certain specified conditions, including (1) that the affiliate agree to permit itself and all banks owned or controlled by it to be examined by national bank examiners, and (2) that the affiliate shall in 5 years establish and maintain a reserve of readily marketable assets other than bank stock in an amount not less than a certain percentage of the aggregate par value of all bank stocks controlled by such affiliate, and (3) that the affiliate shall either immediately or within a period of five years (it is not clear which) divest itself of any interest in or participation in the management of, any "securities company" (which is defined as any corporation, association, business trust, or other similar organization, formed for the purpose of, or engaged principally in, the issue, flotation, underwriting, public sale or distribution of securities).

One of the paragraphs which Section 5 (b) of the new bill would add to Section 9 of the Federal Reserve Act is to the effect that holding company affiliates of state member banks shall be subject to the provisions of Section 5144 of the Revised Statutes as amended.

Under these provisions of the new bill the failure of a holding company affiliate to obtain a voting permit, or the revocation by the Board of the voting permit previously granted to a holding company affiliate, would subject the affiliated member bank to the possible penalty of forfeiture of its charter, in the

case of a national bank, and of expulsion from the Federal Reserve System, in the case of a state member bank.

Under the provisions recommended by the Board on this subject the right of an affiliate to vote member bank stock owned or controlled by it would be conditional upon such affiliate filing an agreement accepting, and agreeing to submit to and comply with, the provisions of the relevant section of the law. In the case of an affiliate of a national bank the agreement would be filed with the Comptroller of the Currency and the relevant section of the law the provisions of which the affiliate would accept, and agree to submit to and comply with, would be Section 5144 of the Revised Statutes as amended. In the case of an affiliate of a state member bank the agreement would be filed with the Board and the relevant section of the law the provisions of which the affiliate would accept, and agree to submit to and comply with, would be a new paragraph to be added to Section 9 of the Federal Reserve Act. Section 5144 of the Revised Statutes as amended in accordance with the Board's recommendations, and the proposed new paragraph to be added to section 9 of the Federal Reserve Act, contain provisions which would require the establishment and maintenance of a reserve of readily marketable assets other than bank stock in an amount not less than a certain percentage of the aggregate par value of all bank stocks held or owned by the affiliate; but do not include any provisions with reference to the examination of affiliates since the subject of examinations of affiliates is covered by other provisions recommended by the Board.

We are in favor of the adoption of the provisions recommended by the Board on this subject which are, in our opinion, clearer and more logical in arrangement than the provisions contained in the new bill.

The provisions of the new bill are also open to the objection that they would require holding company affiliates to divest themselves of any interest in, or participation in the management of, any "securities company." As previously indicated it is not clear whether under the provisions of the new bill affiliates would be required to terminate their interest in, and participation in the management of, securities companies immediately or within five years; but whichever interpretation might be adopted the provisions are, in our opinion, unwise for the reasons which we have previously indicated in the discussion of the provisions of Section 5 (b) and 17 requiring the divorce of stock of member banks from stock of other corporations and the provisions of Section 19 requiring the divorce of member banks from securities companies. Therefore, if the provisions of the new bill with reference to the right of holding company affiliates to vote member bank stock are retained, they should in any event be amended at least to the extent of striking out all the matter from and including "(1)" in the 24th line on page 43 to the end of line 21 on page 44 of the new bill.

Section 5 (b). Examination of affiliates of state member banks.

Section 25. Examination of affiliates of national banks.

One of the paragraphs which Section 5 (b) of the new bill would add to Section 9 of the Federal Reserve Act contains the provision that "In connection with examinations of State member banks, examiners selected or approved by the Federal Reserve Board shall make such examinations of the affairs of all affiliates of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of such banks."

Section 25 of the new bill would add to Section 5240 of the Revised Statutes a similar provision with reference to the examination of national banks by examiners of the Comptroller of the Currency.

It is not altogether clear whether these provisions of the new bill would be interpreted to require the examination of all affiliates of member banks or to require the examination of affiliates only when necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of such banks.

We are in favor of the adoption of the provisions recommended by the Board with reference to examination of affiliates of member banks, under which provisions such examinations would not be mandatory in all cases, since they provide that examiners "may examine any affiliate" when deemed necessary to disclose the relations of such affiliate with the member bank or the effect of such relations upon the management or condition of such bank. The examination of all affiliates of member banks should not, in our opinion, be made mandatory, because, in view of the broad definition (contained in Section 2) of the term "affiliate" this would require the examination of many corporations engaged in purely industrial businesses.

and not carrying on any banking or financial operations, and the relations of which to the member banks do not affect the condition or the management of the banks. In a preceding part of this memorandum we expressed our objection upon substantially similar grounds to the provisions of Section 5 (b) and Section 24 with reference to reports of affiliates.

Another criticism of the provisions of the new bill with reference to examinations of member banks is that they would authorize the Comptroller of the Currency to publish the report of his examination of any national bank or affiliate which shall not within 120 days after notification of the recommendations or suggestions of the Comptroller of the Currency, based upon such examination, have complied therewith to the Comptroller's satisfaction. It would be a very serious matter for a national bank if publicity were given to criticisms of it made by the Comptroller of the Currency. The threat of such publicity would therefore as a practical matter virtually compel a national bank to comply with any recommendations or suggestions of the Comptroller. In this connection it should be noted that the proposed provision contains no limitation in regard to the character of the recommendations or suggestions and that while the Comptroller would be required to give 90 days notice prior to such publicity he would not be required to give the bank or affiliate a hearing. While there is of course every reason to assume that such power, if exercised at all, would be exercised only in extreme cases and in a fair and reasonable manner, nevertheless we believe that as a matter of principle this power is too drastic and arbitrary to be vested in a supervisory authority. The new bill contains no similar provision with reference to giving publicity to reports of examinations of state member banks.

The provisions of the new bill with reference to examinations of affiliatesof state member banks provide that the cost of such examinations shall be assessed against the member bank, instead of against the affiliate, although the provisions with reference to the examination of affiliates of national banks, and

the provisions recommended by the Board with reference to examinations of affiliates of both state member banks and national banks, provide that the cost of examination shall be assessed against the affiliates in the first place, and against the affiliated banks only in the event that the affiliates do not pay the assessments against them. We believe that the latter procedure is logical and more desirable.

It may also be noted that the new bill would give no power to examiners to administer oaths to the officers, etc., of the affiliates in connection with the examination of affiliates of state member banks, although it would give such power to examiners in connection with the examinations of national banks, and the provisions recommended by the Board would give such power in connection with the examination of affiliates of both state member banks and of national banks.

Section 6. Membership of the Federal Reserve Board.

In explanation of this section of the new bill we quote the following paragraph with reference to it from page 7 of the memorandum (X-7139) transmitted with the Federal Reserve Board's letter of November 7, 1932 (X-7287):

> "The old bill (in Section 7) contained a provision omitting the Secretary of the Treasury from the membership of the Federal Reserve Board and omitting the provision of the Federal Reserve Act authorizing the Secretary to assign quarters to the Federal Reserve Board. The Board recommended certain minor amendments to this section and suggested that authority be given the Board to purchase or erect a building for its offices. In Section 6 of the new bill the provisions of the old bill are repeated with the minor changes recommended by the Board; but the authority for the Federal Reserve Board to purchase or erect a building is omitted."

We believe authority should be given to the Board to purchase or erect a building for its offices as the Board has recommended.

Section 7. Open Market Committee.

We agree with the recommendations which were made by the Federal Reserve Board on this subject but which were not adopted in the new bill. These recommendations were that the proposed new section providing for the Federal Open Market Committee along the lines of the existing Open Market Policy Conference be omitted and that Section 14 of the Federal Reserve Act be amended as follows:

(1) By striking out "Every Federal reserve bank shall have power" just before the lettered subdivisions of Section 14 of the Federal Reserve Act and substituting therefor:

"Subject to such regulations, limitations, restrictions and procedure as the Federal Reserve Board may prescribe, every Federal reserve bank shall have power:"

(2) By adding at the end of Section 14 of the Federal Reserve Act a new paragraph reading:

"The time, character and volume of all purchases and sales in the open market under this section shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

SECTION 7. Federal Liquidating Corporation

The Reconstruction Finance Corporation has power to make loans secured by the assets of closed banks, and has in fact made a number of such loans. The Reconstruction Finance Corporation, however, is not a permanent organization and looking to the future, we believe a Federal Liquidating Corporation, properly set up, could be of distinct advantage to our banking structure mainly because it would enable those in charge of bank supervision to close slipping institutions promptly which would result in a greater and more equitable distribution of deposits and avoid the temporizing procedure that has been absolutely necessary in many cases in the past.

We realize that there is objection in principle to the use of a portion of the surpluses of the Federal reserve banks, but we believe this to be relatively insignificant and ultimately to be offset by the suggested amendment to Section 4 of the Federal Reserve Act regarding earnings.

There is also objection on the part of some member banks to their contribution and they all seem to be under the impression that it is in the nature of a gift. We do not believe this is a proper conclusion because there is no reason why this money should not be lent to insolvent banks with safety and an investment in the Corporation ought to be sound and remunerative.

Inasmuch as the member banks would be investing in the capital of the Corporation, we believe they should be entitled to representation on the board of directors of the Federal Liquidating Corporation and, therefore, suggest that (b) of Section 12 (b) of Section 7 be amended to read as follows:

> "The management of the corporation shall be vested in a board of directors consisting of 7 members, one of whom shall be the Comptroller of the Currency, one a member of the Federal Reserve Board designated by the Board for the purpose, 3 selected annually by the governors of the 12 Federal reserve banks under such procedure as may be prescribed by the Federal Reserve Board, and

two who shall be appointed by the Federal Reserve Board and shall be active executive officers of member banks. The directors shall receive a reasonable allowance for necessary expenses in attending meetings of the board of directors and the two directors who are officers of member banks shall receive such compensation for their services as may be provided by the board of directors, subject to the approval of the Federal Reserve Board, but no other member of such board of directors shall receive any additional compensation for his services as such member."

We also believe it would be advisable to return some of the capital to the member banks when it is no longer needed. Provision is now made that funds not employed shall be invested in United States government bonds or deposited with a Federal reserve bank. Looking ahead, we are hopeful that the time will come when these funds will not be entirely employed and returns will be small to the member banks. Under those conditions, we think a percentage of their subscription should be returned and, therefore, suggest the addition of the following immediately after paragraph (f):

"If at any time in the judgment of the board of directors of the corporation, the amount paid in by member banks for Class A stock is greater than needed by the Corporation for the transaction of its business, the board of directors shall have the power, subject to the approval of the Federal Reserve Board, to suspend any of the provisions of this section calling for the subscription by member banks for Class A stock and to call for the surrender and cancellation of a proportionate amount of Class A stock held by member banks, provided, however, that such suspension, surrender and cancellation shall be subject to revocation by the board of directors of the Corporation and in case of such revocation all the provisions of

this section calling for subscription for Class A stock shall apply according to their original tenor."

We see no reason why Class B stock should not be entitled to equality of treatment with respect to dividends.

We do not like the language in reference to the 8 per cent liquidating fee. Liquidation might happen in 6 months and it might take ten years; therefore, 8 per cent might be too much and again it might be too little. We, therefore, believe that the 8 per cent clause should be eliminated and that the section should read as follows: "After deducting a reasonable liquidation fee from the sum thus realized."

Section (l), page 23, appears to set up a different procedure for member banks which may hereafter become insolvent and it appears inconsistent with the terms of Section (j) on page 21.

We also believe that provision should be made to permit the Federal Liquidating Corporation to make advances on receivers' certificates as well as to lend to the receiver in one sum.

Bill No. 4412 as passed by the Senate makes provision for a subscription to the capital stock by the Treasury, which stock shall be entitled to the same dividends as Class A stock. We believe that the Treasury subscription should be entitled to equal dividends. In the next paragraph, however, there is provision only for two kinds of stock, Class A and Class B. We assume that this was an oversight and that there should be a provision for Class C stock.

Section 8. Loans on member banks collateral notes.

This section of the new bill would amend the seventh paragraph of Section 13 of the Federal Reserve Act, so as to provide among other things that if a member bank, while indebted to a Federal Reserve Bank on a 15 day collateral note and despite a warning of the Federal Reserve Bank or Federal Reserve Board, should increase its loans collateraled by securities or "loans made to members of any organized stock exchange, investment house, or dealer in securities for the purpose of purchasing or carrying investment securities (except obligations of the United States)," the note shall be immediately due and payable and the member bank shall be ineligible to borrow on its 15 day notes for such period as the Board may determine. Such an amendment is in our judgment undesirable. It would embody certain misconceptions in the law, for the language suggests that member bank 15 day notes have a different effect on the credit situation than rediscounts and are more subject to utilization for speculative purposes.

We approve of the Board's recommendation that this section of the new bill be omitted and that there be substituted therefor an amendment increasing the maximum maturity of advances of member banks on their promissory notes secured by eligible paper from 15 to 90 days.

Section 9. Foreign transactions of Federal Reserve Banks.

This section would add a subdivision (g) to Section 14 of the Federal Reserve Act providing that the Federal Reserve Board "shall exercise special supervision over all the relationships and transactions of any kind" of Federal Reserve Banks with foreign banks or bankers; that no representative of a Federal Reserve Bank shall conduct any "negotiations" with any foreign bank or bankers without first obtaining the permission of the Board; that the Board shall have the right in its discretion to be represented in any conference or negotiations with foreign banks or bankers; and that full written reports of all such conferences or negotiations shall be filed with the Board.

The right of the Board to supervise the relationships and transactions of the Federal Reserve Banks with foreign banks and bankers is and should be perfectly clear. It is recognized in the existing law which provides in subdivision (e) of Section 14 that "with the consent or upon the order and direction of the Federal Reserve Board and under regulations to be prescribed by said Board," Federal Reserve Banks have power "to open and maintain accounts in foreign countries, appoint correspondents and establish agencies in such countries *** and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) *****." Moreover, the Board has made a recommendation with which we have expressed our agreement, that in lieu of the proposed new section 12 A of the Federal Reserve Act providing for a "Federal Open Market Committee" certain amendments be made to Section 14 of the Federal Reserve Act including a clause specifically reciting that all of the powers of the Federal Reserve Banks enumerated in the lettered subdivisions of Section 14 shall be "Subject to such regulations, limitations, restrictions and procedure as the Federal Reserve Board may prescribe." This would, of course, apply to foreign transactions the authority for which is contained in various subdivisions of section 14.

We do not, therefore, in any way question the power of the Board to supervise the foreign relationships and transactions of Federal Reserve Banks with foreign banks and bankers. We believe, however, that the enactment of the proposed new subdivision (g) of Section 14 of the Federal Reserve Act would be inconsistent with the fundamental theory of the Federal Reserve System that the Board shall supervise and the Banks operate.

The first sentence of the proposed new section seems to suggest a different and more active degree of supervision over foreign relationships and transactions than over other matters which the law specifically provides shall be subject to the Board's supervision. We would fear that a mandatory requirement of "special supervision over all" transactions with foreign correspondents would result in a degree of supervision which would in effect be little different from operation, especially as to the large number of routine transactions that are performed daily for account of foreign central bank correspondents. We believe that preservation of the distinction between supervision and operation is of fundamental importance in the permanent functioning of the Federal Reserve System.

The latter part of the proposed new subdivision as now contained in the new bill contains rules which it is unnecessary and undesirable to crystallize into law and which would be impracticable in operation. It would, for example, be impossible for an officer of the Reserve Bank to know always in advance when "negotiations" might take place and to secure advance approval of them. The sound and workable procedure is the one now followed, namely, to keep the Board currently informed of any negotiations and obtain its approval before making any commitments. The procedure for making effective the supervision of the Board over operations of the Federal Reserve Banks with or for account of their foreign central bank correspondents should be determined, as they have always been, as a result of practice and experience and, if deemed necessary, should be covered by Board regulations

which may be revised from time to time.

With the foregoing reasons we suggest either that Section 9 of the new bill be omitted altogether, or that it be revised by striking out everything after the period on line 21 on page 29 and by substituting "may supervise" for "shall exercise special supervision over" in the 15th and 16th lines on page 29 so that the proposed new subdivision would read as follows:

"(g) The Federal Reserve Board may supervise all relationships and transactions of any kind entered into by any Federal reserve bank with any foreign bank or banker, or with any group of foreign banks or bankers, and all such relationships and transactions shall be subject to such regulations, conditions, and limitations as the board may prescribe."

Section 10. Member banks as mediums in making loans on collateral.

This section of the new bill would insert a new paragraph in Section 19 of the Federal Reserve Act forbidding a member bank to act as the medium or agent of any nonbanking corporation or individual in making loans on the security of stocks, bonds, or other investment securities, to brokers or dealers in such securities.

We would prefer to see this part of Section 10 eliminated because a situation might develop which would make this section a severe handicap to member banks. If, however, it is retained, we believe that the paragraph should be revised so as to make it clear that the prohibition applies to a member bank acting as a medium or agent of a non-member bank which in turn is acting for a non-banking institution; and furthermore, the position of the member bank should be strengthened by giving the Board discretionary power to prohibit a member bank from making such loans for a non member bank.

Section 11. Loans to Executive Officers and Relatives.

We approve of paragraphs (g) and (h) which prohibit an executive officer of a member bank borrowing from his own institution and describe the conditions under which he may borrow from another bank, also the conditions that must be complied with in reference to borrowings of a spouse, brother or sister, lineal ancestors or direct descendents, provided that the terms are not retroactive insofar as borrowings of an executive officer from his own bank are concerned.

Section 12. Loans to or investments in stock of affiliates.

(pp. 32-34).

This section of the new bill would add Section 23(A) to the Federal Reserve Act providing that, subject to the terms, conditions, and exceptions therein specified, no member bank shall make any loan or extension of credit to, or purchase securities under repurchase agreements from, any of its affiliates, or invest in the stock or obligations of such affiliates, or accept such stock or obligations as security for advances, if the aggregate amount thereof, in the case of any one affiliate, will exceed 10 per cent of the capital stock and surplus of the member bank, or, in the case of all such affiliates, will exceed 20 per cent of the capital and surplus of such member bank.

This section is substantially in accord with the recommendations of the Federal Reserve Board and we agree that its enactment would be desirable.

Section 13. Real estate loans and investments in bank premises. (pp. 34-35).

This section would add Section 24(a) to the Federal Reserve Act providing that no national bank, without the permission of the Comptroller of the Currency, and no state member bank, without the permission of the Federal Reserve Board, shall (1) invest in bank premises, or in the stock, bonds, debentures, or other such obligations of any corporation holding the premises of such bank, or (2) make loans to, or upon the security of the stock of, any such corporation, if the aggregate of all such investments and loans will exceed the amount of the capital stock of such bank.

This section is substantially in accord with the recommendation of the Board and we agree that its enactment would be desirable.

Section 14. Jurisdiction of Federal Courts over cases involving foreign banking transactions. (p. 35).

Section 14 of the new bill would add Section 25(b) to the Federal Reserve Act, conferring upon the district courts of the United States jurisdiction over any case to which a corporation organized under the laws of the United States is a party and which arises out of transactions involving international or foreign banking.

We believe that the enactment of this provision would be desirable.

We believe it would also be desirable to restore to the United States district courts the jurisdiction which they had prior to the Act of February 13, 1925, over suits by or against Federal Reserve Banks.

Section 15. National banks granted all powers of state banks.

(p. 36)

Paragraph "Seventh" of Section 5136 of the Revised Statutes, as it would be amended by Section 14 of the new bill, contains a clause authorizing any national bank to engage in all forms of banking business that may, by the laws of the state in which such bank is situated, be permitted to "banks of deposit and discount" organized under the laws of such state, except in so far as may be forbidden by the laws of the United States.

As was pointed out in the memorandum which accompanied the Federal Reserve Board's letter of March 29, 1932, to Senator Norbeck, such a provision would tend to lower the standards of banking among national banks located in states where unduly liberal powers are granted to state banks by state law. We agree with the Board that this provision should be eliminated.

Section 15. Dealings in stocks and investment securities by national banks. (pp. 36-38)

The provisions on this subject contained in Section 15 of the new bill have been previously referred to in connection with the provision contained in Section 5(b) of the new bill with respect to dealings in stocks and investment securities by state member banks.

Section 16(a). Capital required for organization of national banks. (pp. 38-39)

This section would amend Section 5138 of the Revised Statutes so as to increase the minimum amount of capital required for the organization of a national bank from $25,000 to $50,000.

This section follows the recommendations of the Federal Reserve Board and we agree that its enactment would be desirable.

Section 16(b). Capital requirements of state member banks.

(p. 39)

This section of the new bill would amend Section 9 of the Federal Reserve Act so as to eliminate the provision under which a state bank may be admitted to membership in the Federal Reserve System with a capital equal to only 60% of the amount required for the organization of a national bank in the place where it is situated, if the applying bank complies with rules and regulations to be prescribed by the Federal Reserve Board for increasing capital out of future net earnings.

We believe that the enactment of this provision would be desirable.

Section 17. Divorce of stock of national bank from stock of other corporations. (p. 39)

The provisions on this subject contained in Section 17 of the new bill have been previously referred to in connection with the similar provisions contained in Section 5(b) of the new bill with respect to the divorce of stock of state member banks from stock of other corporations.

Section 18. Shares of its own stock held by a national bank as trustee. (p. 40)

This section of the new bill would amend Section 5144 of the Revised Statutes so as, among other things, to prohibit shares of its own stock held by a national bank as trustee from being voted. ?

This proposal is in accordance with the Federal Reserve Board's recommendation and we agree that it is desirable.

Section 18. Right of an affiliate of a national bank to vote stock held by it in such bank. (pp. 40-45)

The provisions on this subject contained in Section 18 of the new bill have been previously referred to in connection with the similar provisions contained in Section 5(b) of the new bill with respect to the right of an affiliate of a state member bank to vote stock held by it in such bank.

Section 19. Divorce of member banks from security affiliates. (pp. 45-46)

The provisions on this subject contained in Section 19 of the new bill have been previously referred to in connection with the provisions contained in Section 5(b) and Section 16 of the new bill with respect to the divorce of stock of state member banks and national banks from stock of other corporations.

Section 20. Branches of national banks.

We believe this legislation to be a step in the right direction but believe it does not go far enough. We would prefer to see a greater extension of branch banking.

Section 21. Consolidations of national banks with other banks in the same state.

Section 21 of the new bill would amend the act providing for the consolidation of two or more national banks or for the consolidation of state banks with national banks so as to permit such consolidations between banks located anywhere in the same state.

Such an amendment would, of course, be an essential adjunct to legislation authorizing statewide branch banking by national banks.

Section 22. Rate of interest on loans.

This section of the new bill would amend Section 5197 of the Revised Statutes so that national banks could charge on loans and discounts (1) the rate of interest allowed by state law (or 7 per cent where the state law fixes no limit), or (2) a rate of one per cent in excess of the Federal Reserve Bank discount rate on 90 day commercial paper, whichever may be the greater; instead of being limited, as they are under existing law, to the rate of interest allowed by state law (or 7 per cent where the state law fixes no limit), irrespective of the Federal Reserve Bank discount rate.

We appreciate that under some circumstances it may be desirable to permit national banks to charge a higher rate of interest than that allowed by state law. There are, however, difficulties first in relating the maximum interest rate to the Federal Reserve Bank discount rate, and second and more particularly, in allowing an interest rate in excess of the Federal Reserve discount rate. The latter procedure contains the implicit assumption that the member bank should be able to borrow at a profit. In theory at least this would detract from the effectiveness of the Federal Reserve discount rate. We would suggest the modification of this clause to change the expression "1 per cent in excess of" to "equal to."

Section 23. Limitation on aggregate of loans to corporations and subsidiaries.

This section of the new bill proposes to amend the first paragraph of Section 5200 of the Revised Statutes so as to provide that, in computing the amount which a corporation may lawfully borrow from a national bank, the corporation and all its subsidiaries in which such corporation owns or controls a majority interest must be treated as a single borrower. This would make it illegal for a national bank to loan an aggregate amount in excess of 10 per cent of its combined capital and surplus to a corporation and all such subsidiaries, except to the extent that their obligations might come within the exceptions enumerated in Section 5200.

We approve of this section.

Section 24. Reports of affiliates of national banks.

The provisions on this subject contained in Section 24 of the new bill have been previously referred to in connection with the similar provisions contained in Section 5 (b) of the new bill with respect to reports of affiliates of state member banks.

Section 25. Examination of affiliates of national banks.

The provisions on this subject contained in Section 5 (b) of the new bill have been previously referred to in connection with the similar provisions contained in Section 5 (b) of the new bill with respect to the examination of affiliates of state member banks. We further believe the expense of such examinations should be actual cost rather than be determined by resources.

Section 26. Permitting the Comptroller of the Currency to open closed national banks providing he secures 85 per cent of deposits and credit liabilities.

We approve of this proposal.

Section 27. Removal of bank directors or officers from office.

Section 27 of the new bill would provide a procedure for the removal, by the Federal Reserve Board after a hearing, of a director or officer of a member bank who has continued to violate the law or has continued unsafe or unsound practices in conducting the business of the bank with which he is connected after being warned by the Comptroller of the Currency (in the case of a national bank) or the Federal Reserve Agent of his district (in the case of a state member bank) to discontinue such violations or such practices.

This section is substantially in accord with the recommendations of the Board and we agree that its enactment would be desirable.

Section 28. Saving clause and reservation of right to amend.

This section contains the usual provisions reserving the right to alter, amend or repeal the act, and limiting the effect of decisions holding parts of the act to be invalid to the specific parts dealt with in such decisions.