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Subject File, Federal Reserve Board, Glass Bill (S. 4112), 1932

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD
GLASS BILL S.4412

1932

72^D CONGRESS
1ST SESSION

S. 4115

IN THE SENATE OF THE UNITED STATES

MARCH 14 (calendar day, MARCH 17), 1932

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.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the short title of this Act shall be the "Banking Act
4 of 1932."

5 SEC. 2. As used in this Act—

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

1 (b) The term "affiliate" includes a trust company,
2 a finance company, securities company, discount or accept-
3 ance company, investment trust, or other similar institution,
4 or a corporation—

5 (1) Of which a national bank or member bank, directly
6 or indirectly, owns or controls either a majority of the
7 voting shares or more than 50 per centum of the number
8 of shares voted for the election of its directors, trustees, or
9 other managing officers at the preceding annual meeting,
10 or controls in any manner the election of a majority of its
11 directors, trustees, or other managing officers; or

12 (2) Of which control is held, directly or indirectly,
13 through stock ownership or in any other manner, by the
14 shareholders of a national bank or member bank who own
15 or control either a majority of the shares of such bank or
16 more than 50 per centum of the number of shares voted
17 for the election of directors of such bank at the preceding
18 annual meeting, or by trustees for the benefit of the share-
19 holders of any such bank; or

20 (3) Of which either a majority of the members of its
21 executive committee or a majority of its directors, trustees,
22 or other managing officers are directors of a national bank or
23 member bank; or

24 (4) Which owns or controls, directly or indirectly,
25 either a majority of the shares of capital stock of a national

1 bank or member bank or more than 50 per centum of the
2 number of shares voted for the election of directors of such
3 bank at the preceding annual meeting, or controls in any
4 manner the election of a majority of the directors of such
5 bank; or

6 (5) For the benefit of whose shareholders or members
7 all or substantially all the capital stock of a national bank
8 or member bank is held by trustees.

9 SEC. 3. The fourth paragraph after paragraph
10 "Eighth" of section 4 of the Federal Reserve Act, as
11 amended, is amended by inserting before the period at the
12 end thereof a comma and the following: "but only if
13 such discounts, advancements, and accommodations are in-
14 tended for the accommodation of commerce, industry, and
15 agriculture. The Federal Reserve Board may prescribe
16 regulations further defining and regulating the use of the
17 credit facilities of the Federal reserve system within the
18 limitations of this Act. Such facilities shall not be extended
19 to member banks for the purpose of making or carrying
20 loans covering investments, or facilitating the carrying of,
21 or trading in, stocks, bonds, or other investment securities
22 other than obligations of the Government of the United
23 States. Each Federal reserve bank shall keep itself
24 informed of the loan and investment practices of its member
25 banks and the uses made by them of the credit facilities of

1 the Federal reserve system. The chairman of each Fed-
 2 eral reserve bank shall report to the Federal Reserve Board
 3 any undue, unauthorized, or improper use of such credit
 4 facilities, together with his recommendation for remedial
 5 action in the matter. The Federal Reserve Board may,
 6 in its discretion, suspend for not more than one year from
 7 the use of the credit facilities of the Federal reserve system
 8 any member bank making undue, unauthorized, or improper
 9 use of such facilities."

10 SEC. 4. The twenty-fifth paragraph of section 4 of the
 11 Federal Reserve Act, as amended, is amended by inserting
 12 before the period at the end thereof a colon and the follow-
 13 ing: "*Provided*, That no such vote shall be cast by or on
 14 behalf of any member bank, if a majority of its stock shall
 15 be held or owned by any affiliate, or other corporation,
 16 which is in fact one of a chain, or of a jointly controlled
 17 group of banks, controlled by an individual, or if its stock
 18 is in the hands of a voting trust, or if in any other way such
 19 bank is prevented from acting subject to the uncontrolled
 20 decision of the general body of stockholders of such bank
 21 locally resident in the town or city in which such bank is
 22 established."

23 SEC. 5. The first paragraph of section 7 of the Federal
 24 Reserve Act, as amended, is amended to read as follows:

1 "After all necessary expenses of a Federal reserve bank
 2 shall have been paid or provided for, and provision shall
 3 have been made, when necessary, for restoring the surplus
 4 of the bank to its position as of December 31, 1931, the
 5 stockholders shall be entitled to receive an annual dividend
 6 of 6 per centum on the paid-in capital stock, which dividend
 7 shall be cumulative. After the aforesaid dividend claims
 8 have been fully met, the net earnings, beginning with the net
 9 earnings for the year ending December 31, 1932, shall be
 10 paid to the Federal Liquidating Corporation provided for in
 11 section 12B of this Act and shall be used by the said corpo-
 12 ration for carrying out the purposes of such section."

13 SEC. 6. Section 9 of the Federal Reserve Act, as
 14 amended, is further amended by inserting between the fifth
 15 and sixth paragraphs thereof the following new paragraph:
 16 "Each affiliate of a bank admitted to membership
 17 under authority of this section shall make and furnish to
 18 the president of the bank, for transmission by him to the
 19 Federal Reserve Board, not less than three reports during
 20 each year. Such reports shall be in such form as the
 21 Federal Reserve Board may prescribe, shall be verified by
 22 the oath or affirmation of the president or such other officer
 23 as may be designated by the board of directors of such
 24 affiliate to verify such reports, and shall cover the condition

1 of such affiliate on dates identical with those fixed by the
 2 Federal Reserve Board for reports of the condition of the
 3 member bank. Each such report of an affiliate shall be
 4 transmitted to the Federal Reserve Board at the same time
 5 as the corresponding report of the member bank, except
 6 that the Federal Reserve Board may, in its discretion, extend
 7 such time for good cause shown. Each such report shall
 8 exhibit in detail and under appropriate heads, the holdings
 9 of the affiliate in question, their cost and present value, the
 10 expenses of operation for the preceding year, and the balance
 11 sheet of the enterprise. It shall be the duty of the president
 12 of such member bank to satisfy himself as to the correctness
 13 of the report before transmitting the same to the Federal
 14 Reserve Board. Any affiliate which fails to make and
 15 furnish any report required of it under this section, and
 16 any member bank whose president fails to transmit, as
 17 required by this section, any such report furnished to him,
 18 shall be subject to a penalty of \$100 for each day during
 19 which such failure continues."

20 SEC. 7. (a) The first paragraph of section 10 of the
 21 Federal Reserve Act, as amended, is amended to read as
 22 follows:

23 "A Federal Reserve Board is hereby created which
 24 shall consist of seven members, including the Comptroller of
 25 the Currency, who shall be a member ex officio, and six mem-

1 bers appointed by the President of the United States, by
 2 and with the advice and consent of the Senate. In select-
 3 ing the six appointive members of the Federal Reserve
 4 Board, not more than one of whom shall be selected from
 5 any one Federal reserve district, the President shall have
 6 due regard to a fair representation of the financial, agricul-
 7 tural, industrial, and commercial interests, and geographical
 8 divisions of the country, and at least two of such members
 9 shall be persons of tested banking experience. The six
 10 members of the Federal Reserve Board appointed by the
 11 President and confirmed as aforesaid shall devote their entire
 12 time to the business of the Federal Reserve Board and shall
 13 each receive an annual salary of \$12,000, payable monthly,
 14 together with actual necessary traveling expenses, and the
 15 Comptroller of the Currency, as ex officio member of the
 16 Federal Reserve Board, shall, in addition to the salary now
 17 paid him as Comptroller of the Currency, receive the sum
 18 of \$7,000 annually for his services as a member of said
 19 board."

20 (b) The second paragraph of section 10 of the Fed-
 21 eral Reserve Act, as amended, is amended to read as follows:

22 "The Comptroller of the Currency shall be ineligible
 23 during the time he is in office and for two years thereafter
 24 to hold any office, position, or employment in any member
 25 bank. The appointive members of the Federal Reserve

1 Board shall be ineligible during the time they are in office
 2 and for two years thereafter to hold any office, position, or
 3 employment in any member bank, except that this restric-
 4 tion shall not apply to a member who has served the full
 5 term for which he was appointed. Upon the expiration of
 6 the term of any member of the Federal Reserve Board in
 7 office when this paragraph as amended takes effect, the
 8 President shall fix the term of the successor to such member
 9 at not to exceed twelve years, as designated by the President
 10 at the time of nomination, but in such manner as to provide
 11 for the expiration of the term of not more than one member
 12 in any two-year period, and thereafter each member shall
 13 hold office for a term of twelve years. Of the six persons
 14 thus appointed, one shall be designated by the President as
 15 governor and one as vice governor of the Federal Reserve
 16 Board. The governor of the Federal Reserve Board, sub-
 17 ject to its supervision, shall be its active executive officer.
 18 Each member of the Federal Reserve Board shall within
 19 fifteen days after notice of appointment make and subscribe
 20 to the oath of office."

21 (c) The fourth paragraph of section 10 of the Federal
 22 Reserve Act, as amended, is amended to read as follows:
 23 "No member of the Federal Reserve Board shall be an
 24 officer or director of any bank, banking institution, trust
 25 company, or Federal reserve bank or hold stock in any

1 bank, banking institution, or trust company; and before
 2 entering upon his duties as a member of the Federal Reserve
 3 Board he shall certify under oath that he has complied
 4 with this requirement and such certification shall be filed
 5 with the secretary of the board. Whenever a vacancy
 6 shall occur, other than by expiration of term, among the
 7 six members of the Federal Reserve Board appointed by
 8 the President, as above provided, a successor shall be
 9 appointed by the President, with the advice and consent
 10 of the Senate, to fill such vacancy, and when appointed
 11 he shall hold office for the unexpired term of the member
 12 whose place he is selected to fill."

13 SEC. 8. Subsection (m) of section 11 of the Federal
 14 Reserve Act, as amended, is amended to read as follows:
 15 "(m) Upon the affirmative vote of not less than six of
 16 its members the Federal Reserve Board shall have power
 17 to fix from time to time for any member bank the percentage
 18 of the capital and surplus of such bank which may be repre-
 19 sented by loans protected by collateral security. Any per-
 20 centage so fixed by the Federal Reserve Board shall be sub-
 21 ject to change from time to time upon ten days' notice, and it
 22 shall be the duty of the board to establish such percent-
 23 ages with a view to preventing the undue use of bank
 24 loans for the speculative carrying of securities. The Federal
 25 Reserve Board shall have power to direct any member bank

1 to refrain from further increase of its security loans for
2 any period up to one year. Any violation of this subsection
3 may be penalized by suspension of all rediscount privileges
4 at Federal reserve banks."

5 SEC. 9. No national banking association and no mem-
6 ber bank shall (1) make any loan or any extension of credit
7 to any affiliate organized and existing for the purpose of buy-
8 ing and selling stocks, bonds, real estate, or real-estate mort-
9 gages, or for the purpose of holding title to any such prop-
10 erty, or (2) invest any of its funds in the capital stock,
11 bonds, or other obligations of any such affiliate, or (3) accept
12 the capital stock, bonds, or other obligations of any such
13 affiliate as collateral security to protect loans made to any
14 person, partnership, or corporation, if the aggregate amount
15 of such loans, extensions of credit, investments, and accept-
16 ances of collateral security in the case of any such affiliate,
17 will exceed 10 per centum of the outstanding capital stock
18 and surplus of such national banking association or member
19 bank.

20 Each loan made to an affiliate within the foregoing
21 limitations shall be secured by stocks or bonds listed on a
22 stock exchange which have an ascertained market value at
23 the time of making the loan of at least 20 per centum more
24 than the amount of such loan, or shall be secured by notes,

1 drafts, bills of exchange or acceptances, eligible for redis-
2 count at Federal reserve banks, or by bonds or other obliga-
3 tions eligible for investment by savings banks in the State
4 in which the association or member bank making the loan is
5 located. A loan to a director, officer, clerk, or other em-
6 ployee of any such affiliate shall be deemed a loan to the
7 affiliate to the extent that the proceeds of such loan are
8 transferred to the affiliate.

9 SEC. 10. The Federal Reserve Act, as amended, is
10 amended by inserting between sections 12 and 13 thereof
11 the following new sections:

12 "SEC. 12A. (a) There is hereby created a Federal
13 Open Market Committee (hereinafter referred to as the
14 "committee"), which shall consist of the governor of the
15 Federal Reserve Board and as many additional members
16 as there are Federal reserve districts. Each Federal reserve
17 bank by its board of directors shall annually select from
18 among the officers of the said bank one member of said
19 committee. The meetings of said committee shall be held
20 at Washington, District of Columbia, at least four times
21 each year. Additional meetings may be held elsewhere
22 upon the call of the Federal Reserve Board, either upon the
23 motion of the board or at the request of any three members
24 of the committee. In the absence or inability of the gov-

1 error of the Federal Reserve Board to act at such meetings
2 the board shall designate the vice governor or some other
3 member of the board to act in place of the governor.

4 “(b) No Federal reserve bank shall engage in open
5 market operations described in section 14 of this Act except
6 after approval and authorization by the committee. The
7 committee shall discuss, adopt, and transmit to the several
8 Federal reserve banks resolutions relating to all matters
9 affecting the open market transactions of such banks and to
10 all matters affecting the relations of the Federal reserve
11 system with foreign central or other banks. Every such
12 resolution shall be reported within three days to the Federal
13 Reserve Board and shall be subject to its approval. The
14 board shall annually include in its report to the Speaker
15 of the House of Representatives a review of the decisions
16 of the committee for the preceding year and an explanation
17 of the reasons for such decisions and the results thereof, so
18 far as they may be ascertained.

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

1 “(d) The conclusions and recommendations of the
2 committee when approved by the Federal Reserve Board
3 shall be submitted to each Federal reserve bank for de-
4 termination whether it will participate in any purchases or
5 sales recommended. If any Federal reserve bank shall
6 decide not to participate in the open market operations
7 so recommended, it shall file with the chairman of the com-
8 mittee within thirty days a notice of its decision.

9 “SEC. 12B. (a) There is hereby created a Federal
10 Liquidating Corporation (hereinafter referred to as the
11 ‘corporation’), whose duty it shall be to purchase, hold,
12 and liquidate as hereinafter provided, the assets of banks
13 which have been ordered closed by the Comptroller of the
14 Currency or by vote of their directors, and the assets of
15 member banks which have been ordered closed by the
16 appropriate State authorities.

17 “(b) The Comptroller of the Currency and the mem-
18 bers of the Federal Open Market Committee created by
19 section 12A of this Act shall constitute the directors of
20 the corporation. The Comptroller of the Currency shall
21 be the chairman of the board of directors of the corporation.

22 “(c) The capital stock of the corporation shall be
23 divided into shares of \$100 each. Certificates of stock of
24 the corporation shall be of two classes, class A and class
25 B. Class A stock shall be held by member banks only and

1 shall be entitled to prior payment of dividends out of net
 2 earnings, to the extent of 30 per centum of such net
 3 earnings in any one year, after payment of all expenses
 4 of the corporation, but such stock shall have no vote at
 5 meetings of stockholders. Class B stock shall be held by
 6 Federal reserve banks only and shall not be entitled to
 7 the payment of dividends. Every Federal reserve bank
 8 shall subscribe to shares of class B stock in the corpora-
 9 tion to an amount equal to one-fourth of the surplus of
 10 such bank on December 31, 1931, and its subscriptions shall
 11 be accompanied by a certified check payable to the Comp-
 12 troller of the Currency in an amount equal to one-half of
 13 1 per centum of such subscription. The remainder of such
 14 subscription shall be subject to call from time to time by
 15 the board of directors upon ninety days' notice and annual
 16 subscriptions to such stock shall be made by each such bank
 17 in an amount equal to one-fourth of the annual increase
 18 of such surplus.

19 “(d) Every member bank shall subscribe to the class
 20 A capital stock of the corporation in an amount equal to
 21 one-half of 1 per centum of its total net outstanding time
 22 and demand deposits on the last call date in the year 1931.
 23 One-half of such subscription shall be paid in full within
 24 ninety days after receipt of notice from the chairman of
 25 the board of directors of the corporation; and the remainder

1 of such subscription shall be subject to call from time to
 2 time by the board of directors of the corporation.

3 “(e) The amount of the outstanding class A stock of
 4 the corporation held by member banks shall be annually
 5 adjusted as hereinafter provided as member banks increase
 6 their time and demand deposits or as additional banks be-
 7 come members, and such stock may be decreased in amount
 8 as member banks reduce their time and demand deposits or
 9 cease to be members. Shares of the capital stock of the
 10 corporation owned by member banks shall not be transferred
 11 or hypothecated. When a member bank increases its time
 12 and demand deposits, it shall at the beginning of each calen-
 13 dar year subscribe for an additional amount of capital stock
 14 of the corporation equal to one-half of 1 per centum of such
 15 increase in deposits. One-half of the amount of such addi-
 16 tional stock shall be paid for at the time of the subscription
 17 therefor and the balance shall be subject to call by the board
 18 of directors of the corporation. A bank applying for stock
 19 in the corporation at any time after the organization thereof
 20 shall be required to subscribe for an amount of class A capital
 21 stock equal to one-half of 1 per centum of the time and
 22 demand deposits of the applicant bank, paying therefor its
 23 par value plus one-half of 1 per centum a month from the
 24 period of the last dividend on the class A stock of the cor-
 25 poration. When the capital stock of the corporation shall

1 have been increased, either on account of the increase of the
2 time and demand deposits of member banks or on account
3 of the increase in the number of member banks, the board
4 of directors of the corporation shall cause to be executed a
5 certificate to the Comptroller of the Currency showing the
6 increase in capital stock of the corporation, the amount paid
7 in, and by whom paid. When a member bank reduces its
8 time and demand deposits it shall surrender, not later than
9 the 1st day of January thereafter, a proportionate amount
10 of its holdings in the capital stock of the corporation, and
11 when a member bank voluntarily liquidates it shall surrender
12 all its holdings of the capital stock of the corporation and be
13 released from its stock subscription not previously called.
14 The shares so surrendered shall be canceled and the mem-
15 ber bank shall receive in payment therefor, under regula-
16 tions to be prescribed by the Federal Reserve Board, a sum
17 equal to its cash-paid subscriptions on the shares surrendered
18 and its proportionate share of earnings not to exceed one-half
19 of 1 per centum a month, from the period of the last divi-
20 dend on such stock, but not above the book value of such
21 earnings, less any liability of such member bank to the
22 corporation.

23 “(f) If any member bank shall be declared insolvent,
24 the stock held by it in the corporation shall be canceled,
25 without impairment of the liability of such bank, and all

1 cash-paid subscriptions on such stock, with its proportionate
2 share of earnings not to exceed one-half of 1 per centum
3 per month from the period of last dividend on such stock
4 but not above the book value of such earnings, shall be first
5 applied to all debts of the insolvent bank to the corpora-
6 tion, and the balance, if any, shall be paid to the receiver
7 of the insolvent bank. Whenever the capital stock of the
8 corporation is reduced, either on account of a reduction in
9 time and demand deposits of any member bank or on account
10 of the liquidation or insolvency of such bank, the board
11 of directors shall cause to be executed a certificate to the
12 Comptroller of the Currency showing such reduction of
13 capital stock and the amount repaid to such bank.

14 “(g) When the minimum amount of class A and class
15 B capital stock required by this Act shall have been sub-
16 scribed and paid for by such banks, the Comptroller shall
17 designate five reserve banks to execute a certificate of organi-
18 zation, and thereupon the banks so designated shall, under
19 their seals, make an organization certificate which shall
20 specifically state the name of the corporation and the city
21 and State in which the corporation is to be located, the
22 amount of capital stock and the number of shares into
23 which the same is divided, the name and place of doing
24 business of each bank executing such certificate and of all

1 banks which have subscribed to the capital stock of such
2 corporation, the number of shares subscribed by each such
3 bank, and the fact that the certificate is made to enable the
4 banks executing the same and all banks which have sub-
5 scribed or may thereafter subscribe to such capital stock to
6 avail themselves of the advantages of this section.

7 “(h) Such organization certificate shall be acknowl-
8 edged before a judge of a court of record or a notary public
9 and shall, together with the acknowledgment thereof au-
10 thenticated by the seal of such court or notary public, be
11 transmitted to the Comptroller of the Currency, who shall
12 file, record, and carefully preserve the same in his office.

13 “(i) Upon the filing of such certificate with the
14 Comptroller of the Currency as aforesaid, the said corpora-
15 tion shall become a body corporate and as such shall have
16 power—

17 “First. To adopt and use a corporate seal.

18 “Second. To have succession for a period of twenty
19 years from its organization unless it is sooner dissolved by
20 an Act of Congress, or unless its franchise becomes forfeited
21 by some violation of law.

22 “Third. To make contracts.

23 “Fourth. To sue and be sued, complain and defend,
24 in any court of law or equity.

1 “Fifth. To appoint by its board of directors such offi-
2 cers and employees as are not otherwise provided for in this
3 section, to define their duties, require bonds of them and
4 fix the penalty thereof, and to dismiss at pleasure such
5 officers or employees.

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

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

14 “(j) The board of directors shall administer the af-
15 fairs of the corporation fairly and impartially and without
16 discrimination in favor of or against any member bank or
17 banks and shall, subject to the provisions of law and the
18 orders of the Federal Reserve Board, extend to each bank
19 which is ordered closed by the Comptroller of the Currency,
20 or by vote of its directors, and to each member bank which is
21 ordered closed by the appropriate State authorities, such
22 accommodations as may be safely and reasonably made with
23 due regard for the claims and demands of other member
24 banks.

1 " (k) Whenever any national bank shall be declared
 2 insolvent or placed in the hands of a receiver it shall be
 3 the duty of the Comptroller of the Currency to appoint a
 4 valuation committee of three members which shall include
 5 the receiver of such bank, a member to be named by the
 6 board of directors of such bank, and a person to be chosen
 7 by the receiver and the member named by the board of
 8 directors. The receiver shall be chairman of the commit-
 9 tee, and the committee shall at once proceed to make a pre-
 10 liminary valuation of the assets of the bank. Thereupon
 11 the receiver shall notify the Comptroller of the Currency
 12 of the valuation agreed upon and the Comptroller shall make
 13 a formal tender of such assets to the corporation which
 14 may purchase the same in whole or in part as its board of
 15 directors may determine. It shall be the duty of the cor-
 16 poration to proceed to realize as rapidly as possible, having
 17 due regard to the condition of credit in the district in which
 18 such bank is located, the assets so purchased, and if the
 19 amount realized from such assets exceeds the sum paid
 20 therefor, the corporation shall make an additional payment
 21 to the receiver of the bank equal to the amount of such
 22 excess, if any, after deducting a liquidation fee of 6 per
 23 centum of the sum thus realized. Money belonging to the
 24 corporation over and above such funds as may be required
 25 for current operating expenses shall be kept invested in the

1 assets of insolvent or closed banks or in securities of the
 2 Government of the United States.

3 " (l) The corporation may, in its discretion, purchase
 4 the assets of banks in the hands of receivers on the date of
 5 its organization, but on the same conditions and terms as are
 6 applicable in the case of assets of banks which may fail or
 7 be closed after such date. Nothing herein contained shall
 8 be construed to prevent the corporation from making loans
 9 to banks ordered closed by the Comptroller of the Currency
 10 or by vote of their directors, or to member banks ordered
 11 closed by the appropriate State authorities, or from entering
 12 into negotiations to secure the reopening of such banks.

13 " (m) Member banks organized under the law of any
 14 State which are now or may hereafter become insolvent or
 15 suspended shall be entitled to offer their assets for sale to
 16 the corporation upon receiving permission in accordance with
 17 law from the banking superintendent or commissioner of
 18 the State, under the same conditions as are applicable to the
 19 sale of assets of insolvent or suspended banks under the law
 20 of the State in which such member bank is located.

21 " (n) For a period of not to exceed two years after
 22 this section takes effect the corporation is authorized to pur-
 23 chase and for a period of five years thereafter to hold and
 24 liquidate the assets of closed State banks, to make loans to
 25 such banks and to enter into negotiations to secure the re-

1 opening of such banks under the same terms and conditions
 2 as are applicable in the case of national banks and member
 3 banks; except that (1) no such purchase or loan shall be
 4 made and no such negotiations shall be entered into unless
 5 it is permitted under the laws of the State in which such
 6 State bank is located, and (2) the amount realized upon the
 7 sale of the assets of any such State bank in excess of the
 8 amount paid for such assets by the corporation shall, after
 9 deducting the amount of the liquidation fee authorized to be
 10 charged by the corporation under paragraph (k), be paid
 11 into the Treasury of the United States as miscellaneous
 12 receipts. For the purpose of carrying out the provisions of
 13 this paragraph, there is hereby authorized to be appropriated
 14 the sum of \$200,000,000, which shall be paid by the Secre-
 15 tary of the Treasury to the corporation in such amounts and
 16 at such times as the board of directors thereof may require.
 17 The sums so paid to the corporation shall be used exclusively
 18 for such purposes. As used in this paragraph the term
 19 'State bank' shall include any savings bank, trust com-
 20 pany, or other banking institution, authorized to accept
 21 deposits, organized under the laws of any State, and which
 22 is not a member of the Federal reserve system.

23 "(o) The corporation is authorized and empowered
 24 to issue and to have outstanding at any one time in an
 25 amount aggregating not more than four times the amount

1 of its capital, its notes, debentures, bonds, or other such obli-
 2 gations, to be redeemable at the option of the corporation
 3 before maturity in such manner as may be stipulated in
 4 such obligations, and to bear such rate or rates of interest,
 5 and to mature at such time or times as may be determined
 6 by the corporation: *Provided*, That the corporation may sell
 7 on a discount basis short-term obligations payable at maturity
 8 without interest. The notes, debentures, bonds and other
 9 such obligations of the corporation may be secured by assets
 10 of the corporation in such manner as shall be prescribed
 11 by its board of directors. Such obligations may be offered
 12 for sale at such price or prices as the corporation may
 13 determine. The corporation is further authorized and
 14 empowered to dispose of any promissory note of any receiver
 15 evidencing loans made by the corporation, and to pledge
 16 such receivers' notes and any of the corporation's assets as
 17 collateral security to the corporation's promissory notes,
 18 under such terms and conditions as may be agreed upon
 19 by the corporation, provided that the obligations so incurred,
 20 together with all other outstanding obligations of the corpo-
 21 ration, shall not be in excess of four times the amount of its
 22 capital.

23 "(p) All notes, debentures, bonds, or other such obliga-
 24 tions issued by the corporation shall be exempt, both as to
 25 principal and interest, from all taxation (except estate and

1 inheritance taxes) now or hereafter imposed by the United
 2 States, by any Territory, dependency, or possession thereof,
 3 or by any State, county, municipality, or local taxing author-
 4 ity. The corporation, including its franchise, its capital,
 5 reserves, and surplus, and its income, shall be exempt from
 6 all taxation now or hereafter imposed by the United States,
 7 by any Territory, dependency, or possession thereof, or by
 8 any State, county, municipality, or local taxing authority,
 9 except that any real property of the corporation shall be
 10 subject to State, Territorial, county, municipal, or local tax-
 11 ation to the same extent according to its value as other real
 12 property is taxed.

13 "(q) In order that the corporation may be supplied with
 14 such forms of notes, debentures, bonds, or other such obliga-
 15 tions as it may need for issuance under this Act, the Secre-
 16 tary of the Treasury is authorized to prepare such forms as
 17 shall be suitable and approved by the corporation, to be held
 18 in the Treasury subject to delivery, upon order of the corpo-
 19 ration. The engraved plates, dies, bed pieces, and other
 20 material executed in connection therewith shall remain in the
 21 custody of the Secretary of the Treasury. The corporation
 22 shall reimburse the Secretary of the Treasury for any
 23 expenses incurred in the preparation, custody, and delivery
 24 of such notes, debentures, bonds, or other obligations."

1 SEC. 11. The seventh paragraph of section 13 of the
 2 Federal Reserve Act, as amended, is amended to read as
 3 follows:

4 "Any Federal reserve bank may make advances to its
 5 member banks on their promissory notes for a period of not
 6 exceeding fifteen days at rates to be established by such Fed-
 7 eral reserve bank, which rates shall in all cases be at
 8 least 1 per centum higher than the rediscount rate then in
 9 force at such reserve bank, subject to the review and deter-
 10 mination of the Federal Reserve Board, provided such prom-
 11 issory notes are secured by such notes, drafts, bills of
 12 exchange, or bankers' acceptances as are eligible for redis-
 13 count or for purchase by Federal reserve banks under the
 14 provisions of this Act, or by the deposit or pledge of bonds
 15 or notes of the United States. If any member bank to
 16 which any such advance has been made shall, during the
 17 life or continuance of such advance, and despite an official
 18 warning of the reserve bank of the district or of the Federal
 19 Reserve Board to the contrary, increase its outstanding
 20 loans made upon collateral security, or made to the mem-
 21 bers of any organized stock exchange, investment house,
 22 or dealer in securities, upon any obligation, note, or bill,
 23 secured or unsecured, for the purpose of purchasing
 24 and/or carrying investment securities (except obligations

1 of the United States) such advance shall be immediately
 2 due and payable, and such member bank shall be ineligible
 3 as a borrower at the reserve bank of the district upon fifteen-
 4 day paper for such period as the Federal Reserve Board
 5 shall determine. The Federal Reserve Board shall have
 6 power from time to time in its discretion by unanimous vote
 7 of its members to suspend the provisions of this paragraph
 8 in whole or in part, whenever in its opinion the public
 9 interest shall call for such action. Each such suspension
 10 shall be for a period of ninety days and may be renewed
 11 for one additional period of ninety days upon unanimous vote
 12 of the members of the board."

13 SEC. 12. Section 14 of the Federal Reserve Act, as
 14 amended, is amended by adding at the end thereof the
 15 following new paragraph:

16 "(g) Subject to the powers conveyed to and be-
 17 stowed upon the Federal Open Market Committee by sec-
 18 tion 12A of this Act, the Federal Reserve Board shall
 19 exercise special supervision and control over all relation-
 20 ships and transactions of any kind entered into by any Fed-
 21 eral reserve bank with any foreign bank or banker, or with
 22 any group of foreign banks or bankers, and all such rela-
 23 tionships and transactions shall be subject to such regula-
 24 tions, conditions, and limitations as the board may prescribe.
 25 No officer or other representative of any Federal reserve

1 bank shall conduct negotiations of any kind with the officers
 2 or representatives of any foreign bank or banker without
 3 first obtaining the permission of the Federal Reserve Board.
 4 The Federal Reserve Board shall have the right, in its dis-
 5 cretion, to be represented in any conference or negotiations
 6 by such representative or representatives as the board may
 7 designate. A full report of all conferences or negotiations,
 8 and all understandings or agreements arrived at or trans-
 9 actions agreed upon, and all other material facts appertain-
 10 ing to such conferences or negotiations, shall be filed with the
 11 Federal Reserve Board in writing and signed by all repre-
 12 sentatives of the Federal reserve bank attending such confer-
 13 ences or negotiations regardless of whether or not the Fed-
 14 eral Reserve Board shall be represented at such conferences
 15 or negotiations."

16 SEC. 13. Section 19 of the Federal Reserve Act, as
 17 amended, is amended to read as follows:

18 "SEC. 19. (a) 'Demand deposits' within the mean-
 19 ing of this Act shall comprise all deposits payable within
 20 thirty days, and 'time deposits' shall comprise all deposits
 21 payable after thirty days, all savings accounts and certifi-
 22 cates of deposit which are subject to not less than thirty days'
 23 notice before payment, and all postal-savings deposits.

24 "(b) Every bank, banking association, or trust com-
 25 pany which is or which becomes a member of any Federal

1 reserve bank shall establish and maintain reserve balances
2 with its Federal reserve bank as follows:

3 “(1) If not in a reserve or central reserve city as now
4 or hereafter defined, it shall hold and maintain with the
5 Federal reserve bank of its district an actual net balance
6 equal to not less than 7 per centum of the aggregate amount
7 of its demand and time deposits: *Provided*, That the said
8 net balance maintained against time deposits shall be 3 per
9 centum during the calendar year 1932, and shall be increased
10 at the rate of four-fifths of 1 per centum on the 1st day of
11 January in each calendar year thereafter until it shall
12 equal 7 per centum as hereinbefore prescribed.

13 “(2) If in a reserve city as now or hereafter defined
14 it shall hold and maintain with the Federal reserve bank
15 of its district an actual net balance equal to not less than 10
16 per centum of the aggregate amount of its demand and time
17 deposits: *Provided*, That the said net balance hereinbefore
18 required to be maintained against time deposits shall be 3
19 per centum during the calendar year 1932, and shall be
20 increased at the rate of $1\frac{2}{3}$ per centum on the 1st day of
21 January in each calendar year thereafter until it shall equal
22 10 per centum as hereinbefore prescribed: *Provided further*,
23 That if located in the outlying districts of a reserve city
24 or in territory added to such a city by the extension of

1 its corporate charter it may, upon the affirmative vote of
2 five members of the Federal Reserve Board, hold and
3 maintain the reserve balances specified in paragraph (1)
4 hereof.

5 “(3) If in a central reserve city as now or hereafter
6 defined it shall hold and maintain with the Federal reserve
7 bank of its district an actual net balance equal to not less
8 than 13 per centum of the aggregate amount of its demand
9 and time deposits: *Provided*, That the said net balance
10 hereinbefore required to be maintained against time deposits
11 shall be 3 per centum during the calendar year 1932, and
12 shall be increased at the rate of 2 per centum on the 1st
13 day of January in each calendar year thereafter until it
14 shall equal 13 per centum as hereinbefore prescribed: *Pro-*
15 *vided further*, That if located in the outlying districts of
16 a central reserve city or in territory added to such a city by
17 the extension of its corporate charter it may, upon the
18 affirmative vote of five members of the Federal Reserve
19 Board, hold and maintain the reserve balances specified
20 in paragraphs (1) and (2) hereof.

21 “(c) No member bank shall keep on deposit with any
22 State bank or trust company which is not a member bank a
23 sum in excess of 10 per centum of its own paid-up capital
24 and surplus. No member bank shall act as the medium or

1 agent of a nonmember bank in applying for or receiving dis-
 2 counts from a Federal reserve bank under the provisions of
 3 this Act except by permission of the Federal Reserve Board.

4 “(d) No member bank shall act as the medium or
 5 agent of any nonbanking corporation or individual in
 6 making loans protected by collateral security; and no mem-
 7 ber bank shall make loans or discount paper for any
 8 corporation or individual if the proceeds of such trans-
 9 action are to be used directly or indirectly for the purpose
 10 of making loans protected by collateral security in favor
 11 of any investment banker, broker, member of any stock
 12 exchange, or any dealer in securities. Every violation of
 13 this provision by any member bank shall be punishable by
 14 a fine of not less than \$100 per day during the continuance
 15 of such violation, but it shall be a good defense that the
 16 borrower at the time of obtaining such loan or discount from
 17 a member bank made a sworn statement that the proceeds
 18 of the transaction would not be used for such purpose.

19 “(e) The required balance carried by a member bank
 20 with a Federal reserve bank may under the regulations, and
 21 subject to such penalties as may be prescribed by the Fed-
 22 eral Reserve Board, be checked against and withdrawn by
 23 such member bank for the purpose of meeting existing
 24 liabilities: *Provided, however,* That no bank shall at any

1 time make any new loans or shall pay any dividends unless
 2 and until the total balance required by law is fully restored.

3 “(f) No member bank shall sell or transfer to another
 4 member bank, or to a nonmember bank, private banking
 5 house, or banker, any balance standing to its credit upon
 6 the books of the Federal reserve bank of its district in excess
 7 of the balances required by this section unless the Federal
 8 Reserve Board shall have first authorized by general order
 9 the making of such sales or transfers within such district
 10 or between such district and another Federal reserve dis-
 11 trict, but no such sale or transfer shall be made by any such
 12 bank without first charging and reserving a fee to be fixed
 13 by the Federal Reserve Board on the basis of the rate of
 14 discount then charged upon ninety-day paper by the Federal
 15 reserve bank of the district in which the bank making such
 16 sale or transfer is located.

17 “(g) The Federal Reserve Board shall have power to
 18 suspend all dealings in reserve balances for such period
 19 as it may deem best. In estimating the reserve balances
 20 required by this Act, the net difference of amounts due to
 21 and from other banks shall be taken as the basis for ascer-
 22 taining the deposits against which required balances with
 23 Federal reserve banks shall be determined; and the liability
 24 created by every repurchase or other similar agreement

1 entered into by a member bank shall be added to such net
2 difference as ascertained under the provisions of this
3 paragraph.

4 “(h) National banks, or banks organized under local
5 laws, located in Alaska or in a dependency or insular
6 possession or any part of the United States outside the
7 continental United States may remain nonmember banks
8 and shall in that event maintain reserves and comply with
9 all the conditions now provided by law regulating them; or
10 said banks may, with the consent of the board, become
11 member banks of any one of the reserve districts and shall
12 in that event take stock, maintain reserves, and be subject
13 to all the other provisions of this Act.”

14 SEC. 14. Section 24 of the Federal Reserve Act, as
15 amended, is amended to read as follows:

16 “SEC. 24. Any national banking association may make
17 loans secured by first lien upon improved real estate, includ-
18 ing improved farm land, situated within its Federal reserve
19 district or within a radius of one hundred miles of the place
20 in which such bank is located, irrespective of district lines.
21 A loan secured by real estate within the meaning of this
22 section shall be in the form of an obligation or obligations
23 secured by mortgage, trust deed, or other such instrument
24 upon real estate when the entire amount of such obligation
25 or obligations is made or is sold to such association. The

1 amount of any such loan shall not exceed 50 per centum
2 of the actual value of the real estate offered for security,
3 but no such loan upon such security shall be made for a
4 longer term than five years. Such valuations shall be
5 revised by the Comptroller of the Currency at the time
6 of each examination of the bank making the loan and he
7 shall have power to order changes therein and to require
8 the adjustment of loans to such revised valuations. Any
9 such bank may make such loans in an aggregate sum, in-
10 cluding in such aggregate any such loans on which it
11 is liable as indorser or guarantor or otherwise, equal to
12 15 per centum of the amount of the capital stock of such
13 association actually paid in and unimpaired and 15 per
14 centum of its unimpaired surplus fund, or to one-half of
15 its time deposits, at the election of the association, subject
16 to the general limitation contained in section 5200 of the
17 Revised Statutes. Investments in bank premises and unse-
18 cured loans whose eventual safety depends upon the value
19 of real estate shall be counted for the purposes of this section
20 as real-estate loans. Every such bank may apply the
21 moneys deposited therein as time deposits to the loans herein
22 authorized and the balance of such time deposits shall be
23 invested in property and securities in which savings banks may
24 invest under the law of the State where such national bank

1 is situated, or where there is no such law relating to invest-
 2 ments by savings banks, in such property and securities as
 3 may be specified by the Comptroller of the Currency:
 4 *Provided*, That every member bank shall be required to
 5 report its investments in, or holdings of, any such property
 6 and securities at an aggregate valuation which shall not
 7 exceed the aggregate market value thereof at the time such
 8 reports to the Comptroller or to the Federal Reserve Board
 9 are made: *Provided further*, That the reserve against time
 10 deposits required by section 19 of this Act shall be counted
 11 as a corresponding part of such investments. All the prop-
 12 erty of any insolvent national bank acquired under this
 13 section shall be applied by the receiver thereof in the first
 14 place ratably and proportionately to the payment in full
 15 of its time deposits. Such banks may continue hereafter as
 16 heretofore to receive time deposits and to pay interest on
 17 the same, but the rate of interest which such banks may pay
 18 upon such time deposits or other deposits shall not exceed
 19 the maximum rate authorized by law to be paid upon such
 20 deposits by State banks or trust companies organized under
 21 the laws of the State wherein such national banking
 22 association is located.

23 "Every national banking association and every mem-
 24 ber bank which is in existence at the date this section as
 25 amended takes effect shall be required, within a period of

1 two years from such date, to comply fully with the provisions
 2 of this section, and every national banking association here-
 3 after organized and every State bank or trust company
 4 hereafter becoming a member of the Federal reserve system
 5 shall comply with the provisions of this section from the date
 6 of its organization or admission to membership, as the case
 7 may be."

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

11 "Seventh. To exercise by its board of directors or
 12 duly authorized officers or agents, subject to law, all such
 13 incidental powers as shall be necessary to carry on the busi-
 14 ness of banking; by discounting and negotiating promissory
 15 notes, drafts, bills of exchange, and other evidences of debt;
 16 by receiving deposits; by buying and selling exchange, coin,
 17 and bullion; by loaning money on personal security; and
 18 by obtaining, issuing, and circulating notes according to
 19 the provisions of this title; and generally by engaging in all
 20 forms of banking business and undertaking all types of
 21 banking transactions that may, by the laws of the State
 22 in which such bank is situated, be permitted to banks of
 23 deposit and discount organized and incorporated under the
 24 laws of such State, except in so far as they may be for-
 25 bidden by the provisions of the National Bank Act, as

1 amended, the Federal Reserve Act, as amended, or any
 2 other laws of the United States. The business of pur-
 3 chasing and selling investment securities shall hereafter
 4 be limited to purchasing and selling such securities without
 5 recourse, solely upon the order, and for the account of,
 6 customers, and in no case for its own account, and no such
 7 association shall underwrite any issue of securities; except
 8 that any such association may purchase and hold for its
 9 own account investment securities to such an amount and
 10 of such kind as may be by regulation prescribed by the
 11 Comptroller of the Currency, but in no event shall the
 12 total amount of such investment securities of any one obligor
 13 or maker held by such association exceed 10 per centum of
 14 the total amount of such issue outstanding, nor shall the total
 15 amount of the securities so purchased and held for its own
 16 account at any time exceed 15 per centum of the amount
 17 of the capital stock of such association actually paid in
 18 and unimpaired and 25 per centum of its unimpaired sur-
 19 plus fund. Except as hereinafter provided or otherwise
 20 permitted by law, nothing herein contained shall authorize
 21 the purchase or holding of any shares of stock of any corpo-
 22 ration by any such association. The limitations herein con-
 23 tained as to the purchasing and selling of investment securi-
 24 ties shall not apply to obligations of the United States, or
 25 general obligations of any State or of any political subdivi-

1 sion thereof, or obligations issued under authority of the
 2 Federal Farm Loan Act: *Provided*, That in carrying on
 3 the business commonly known as the safe deposit business
 4 no such association shall invest in the capital stock of a
 5 corporation organized under the law of any State to conduct
 6 a safe deposit business in an amount in excess of 15 per
 7 centum of the capital stock of such association actually
 8 paid in and unimpaired and 15 per centum of its unimpaired
 9 surplus."

10 SEC. 16. Section 5138 of the Revised Statutes, as
 11 amended, is amended to read as follows:

12 "SEC. 5138. After this section as amended takes effect,
 13 no national banking association shall be organized with a
 14 less capital than \$100,000, except that such associations
 15 with a capital of not less than \$50,000 may be organized
 16 in any place the population of which does not exceed six
 17 thousand inhabitants, and except that such associations
 18 formed for the purpose of succeeding to the business of an
 19 existing bank may, in the discretion of the Comptroller of
 20 the Currency, be organized with a less capital than \$50,000,
 21 but in no event less than \$25,000. No such association
 22 shall be organized in a city the population of which exceeds
 23 fifty thousand persons with a capital of less than \$200,000,
 24 except that in the outlying districts of such a city where the
 25 State laws permit the organization of State banks with a

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

5 SEC. 17. Section 5319 of the Revised Statutes, as
6 amended, is amended to read as follows:

7 "SEC. 5139. After this section as amended takes ef-
8 fect, the capital stock of each association shall be divided
9 into shares of \$100 each and be deemed personal property
10 and transferable on the books of the association in such
11 manner as may be prescribed in the by-laws or articles of
12 association; and any such association which has certificates
13 of stock outstanding on the date this section as amended
14 takes effect which do not comply with the provisions of
15 this section as amended shall, within two years after such
16 date, issue new certificates in compliance with such pro-
17 visions. No certificate representing the stock of any such
18 association shall represent the stock of any other corporation,
19 nor shall the ownership, sale, or transfer of any certificate
20 representing the stock of any such association be condi-
21 tioned in any manner whatsoever upon the ownership,
22 sale, or transfer of a certificate representing the stock of any
23 other corporation. Every person becoming a shareholder
24 by transfer as permitted by this section shall in propor-
25 tion to his shares succeed to all the rights and liabilities of the

1 prior holder of such shares, and no change shall be made
2 in the articles of association by which the rights, remedies,
3 or security of the existing creditors of the association shall
4 be impaired."

5 SEC. 18. From and after January 1, 1933, no director,
6 officer, or employee of any national bank or member bank
7 shall be (a) an officer of any unincorporated association
8 or corporation engaged primarily in the business of pur-
9 chasing, selling, or negotiating securities, or (b) an em-
10 ployee of any such unincorporated association or corpora-
11 tion, or of any individual or partnership engaged in such
12 business, or (c) a director, officer, or employee of a cor-
13 poration organized for any purpose whatsoever which shall
14 make loans secured by collateral to any corporation other
15 than its own subsidiaries, or to any individual, association
16 or partnership; and no national bank or member bank shall
17 perform the functions of a correspondent bank on behalf
18 of any such individual, partnership, unincorporated asso-
19 ciation or corporation; and no such individual, partnership,
20 unincorporated association or corporation shall perform the
21 functions of a correspondent for any national bank or mem-
22 ber bank or hold on deposit any funds on behalf of any
23 national bank or member bank.

24 SEC. 19. Section 5144 of the Revised Statutes, as
25 amended, is amended to read as follows:

1 "SEC. 5144. In all elections of directors and in de-
 2 ciding all questions at meetings of shareholders, each share-
 3 holder shall be entitled to one vote on each share of stock
 4 actually owned by him as the result of bona fide purchase,
 5 gift, or inheritance and no shareholder who shall become
 6 such through nominal transfer, or ownership on behalf
 7 of another, shall cast such vote. No corporation, associa-
 8 tion, or partnership which is the owner of more than 10 per
 9 centum of the stock of any such national bank and no officer,
 10 director, or employee of such corporation, association, or part-
 11 nership, shall cast a ballot in such elections or meetings either
 12 on shares of stock owned by the corporation or by such offi-
 13 cer, director, or employee. Shareholders may vote by proxies
 14 duly authorized in writing; but no officer, clerk, teller, or
 15 bookkeeper of such bank shall act as proxy; and no share-
 16 holder whose liability is past due and unpaid shall be allowed
 17 to vote."

18 SEC. 20. Notwithstanding the provisions of section
 19 5144 of the Revised Statutes, as amended by this Act, any
 20 affiliate, or any association, corporation, or partnership other
 21 than an affiliate, which owns or controls shares of stock in
 22 any national bank may make application to the Federal
 23 Reserve Board for a voting permit entitling it to cast one
 24 vote at all elections of directors of such national bank on
 25 each share of stock actually owned or controlled by it. The

1 Federal Reserve Board may, in its discretion, grant or
 2 withhold such permit as the public interest may require but
 3 no such permit shall be granted except upon the following
 4 conditions:

5 (a) Every such affiliate, association, corporation, or
 6 partnership shall, at the time of making the application
 7 for such permit, enter into an agreement with the Comp-
 8 troller of the Currency (1) to receive at such periodical
 9 intervals as shall be prescribed by the Comptroller, on dates
 10 identical with those fixed for the examination of national
 11 banks, examiners representing and acting for the Comp-
 12 troller who shall make an examination of its financial
 13 condition with the same degree of care as in the case of
 14 an examination of a national bank, such examination to
 15 be at the expense of the affiliate, corporation, association,
 16 or partnership so examined; (2) that the report of the exam-
 17 iner shall set forth all the facts ascertained by the examina-
 18 tion and shall include a statement of the name, location,
 19 capital, surplus, and undivided profits of each bank in which
 20 the applicant owns stock, the number of shares so owned,
 21 the par and book value of such shares, the number of
 22 shares of bank stock acquired and sold since the last exam-
 23 ination, and other assets of such affiliate, corporation, asso-
 24 ciation, or partnership (including under separate headings
 25 obligations of the United States, and the value and nature

1 of other securities owned); and (3) that the Comptroller
 2 may examine each national bank owned or controlled by
 3 such affiliate, association, corporation, or partnership, both
 4 individually and in conjunction with others so owned or
 5 controlled, and may require publication periodically of indi-
 6 vidual or consolidated statements of condition of such bank;

7 (b) Every such affiliate, association, corporation, or
 8 partnership shall hold free of any lien or claim thereon
 9 obligations of the United States in an amount equal to 10
 10 per centum of the total of capital stock owned by it in any
 11 national bank and shall agree (1) that in the event of failure
 12 of any national bank in which it shall hold stock the stock-
 13 holders' liability accruing on account of such stock shall
 14 be a first lien upon the obligations so held, and (2) that
 15 any deficiency in such obligations due to their use in meeting
 16 claims under (1) above shall be made up within ninety
 17 days after such deficiency occurs;

18 (c) Every such affiliate, association, corporation, or
 19 partnership (1) shall possess at the time of the issuance of
 20 such voting permit, and shall continue to possess during the
 21 life of such permit, free and clear of any lien, pledge, or
 22 hypothecation of any nature, assets other than bank stock
 23 which, together with the amount of the obligations of the
 24 United States hereinbefore required to be held, shall not be
 25 less than 25 per centum of the aggregate par value of bank

1 stocks held or owned by such affiliate, association, corpora-
 2 tion, or partnership (but sums advanced during the years
 3 1931 and 1932 for the replacement of capital in banks
 4 owned by such affiliate, association, corporation, or partner-
 5 ship, or for losses incurred or charge-offs made by it during
 6 those years, may be counted, up to 10 per centum of the
 7 aggregate par value of bank stocks held or owned by it, as a
 8 part of such assets); and (2) shall reinvest in assets other
 9 than bank stock all net earnings over and above 6 per centum
 10 per annum on the book value of its own shares outstanding
 11 until such assets shall equal the outstanding par value of bank
 12 shares owned by it: *Provided*, That from and after January
 13 1, 1935, the 25 per centum requirement hereinbefore pro-
 14 vided for shall be increased by not less than 2 per centum
 15 per annum, but at no time shall the assets held to meet any
 16 future stockholders' liability be less than the total assets held
 17 by such affiliate, association, corporation, or partnership on
 18 January 1, 1932;

19 (d) Every officer and employee of such affiliate, asso-
 20 ciation, corporation, or partnership shall be subject to the
 21 same penalties for false statement as are applicable at the
 22 time of making such statement to the officers and employees
 23 of national banks; and

24 (e) Every such affiliate, association, corporation, or
 25 partnership shall, at the time of application for such voting

1 permit, (1) file a statement with the Comptroller of the
 2 Currency that it does not own, control, or have any interest
 3 in, or is not participating in the management or direction of,
 4 any affiliate formed for the purpose of, or engaged in, the
 5 issue, flotation, underwriting, public sale, or distribution
 6 at wholesale or retail or through syndicate participation of
 7 stocks, bonds, debentures, notes, or other securities of any
 8 sort, and that during the period that the permit remains
 9 in force it will not acquire any ownership, control, or
 10 interest in any such affiliate or participate in the management
 11 or direction thereof, or (2) agree that if at the time of
 12 filing the application for such permit it owns, controls,
 13 or has an interest in, or is participating in the management
 14 or direction of, any such affiliate, it will, within two years
 15 after the filing of such application, divest itself of its owner-
 16 ship, control, and interest in such affiliate and will cease
 17 participating in the management or direction thereof, and
 18 will not thereafter, during the period that the permit remains
 19 in force, acquire any further ownership, control, or interest
 20 in any such affiliate or participate in the management or
 21 direction thereof, and (3) agree that thenceforth it will
 22 declare dividends only out of actual net earnings as indi-
 23 cated by the last preceding examination made by the
 24 Comptroller.

1 The Federal Reserve Board may, in its discretion,
 2 revoke any such voting permit after giving sixty days'
 3 notice by registered mail of its intention to the affiliate,
 4 association, corporation, or partnership. Whenever the
 5 Federal Reserve Board shall have revoked any such
 6 voting permit, no national bank whose stock is owned in
 7 whole or in part by the affiliate, association, corporation, or
 8 partnership whose permit is so revoked shall receive depos-
 9 its of United States moneys, nor shall any such national
 10 bank pay any further dividend to such affiliate, association,
 11 corporation, or partnership upon any shares of such bank
 12 owned or controlled by such affiliate, association, corpora-
 13 tion, or partnership.

14 SEC. 21. Paragraph (c) of section 5155 of the Revised
 15 Statutes, as amended, is amended to read as follows:

16 "(c) A national banking association may, with the
 17 approval of the Federal Reserve Board, after the date this
 18 paragraph as amended takes effect, establish and operate
 19 new branches within the limits of the city, town, or village,
 20 or at any point within the State in which said association is
 21 situated, if such establishment and operation are at the time
 22 permitted to State banks by the law of the State in question:
 23 *Provided, That, if by reason of the proximity of such an*
 24 *association to a State boundary line, the ordinary and usual*
 25 *business of such association is found to extend into an*

1 adjacent State, the Federal Reserve Board may permit the
 2 establishment of a branch or branches by such association
 3 in an adjacent State but not beyond a distance of fifty miles
 4 from the seat of the parent bank. No such association shall
 5 establish a branch outside of the city, town, or village in
 6 which it is situated unless it has a paid-in and unimpaired
 7 capital stock of not less than \$500,000. The aggregate
 8 capital of every national banking association and its branches
 9 shall at no time be less than the aggregate minimum capital
 10 required by law for the establishment of an equal number
 11 of national banking associations situated in the various places
 12 where such association and its branches are situated.”

13 SEC. 22. Sections 1 and 3 of the Act entitled “An Act
 14 to provide for the consolidation of national banking associa-
 15 tions,” approved November 7, 1918, as amended, are
 16 amended by striking out the words “county, city, town, or
 17 village” wherever they occur in each such section, and
 18 inserting in lieu thereof the words “State, county, city,
 19 town, or village.”

20 SEC. 23. The first two sentences of section 5197 of the
 21 Revised Statutes are amended to read as follows:

22 “Any association may take, receive, reserve, and
 23 charge on any loan or discount made, or upon any notes,
 24 bills of exchange, or other evidences of debt, interest at
 25 the rate allowed by the laws of the State, Territory, or Dis-

1 trict where the bank is located, or at a rate of 1 per centum
 2 in excess of the discount rate of the Federal reserve bank in
 3 the Federal reserve district where the bank is located, which-
 4 ever may be the greater, and no more, except that where by
 5 the laws of any State a different rate is limited for banks of
 6 issue organized under State laws, the rate so limited shall be
 7 allowed for associations organized or existing in any such
 8 State under this title. When no rate is fixed by the laws
 9 of the State, or Territory, or District, the bank may take,
 10 receive, reserve, or charge a rate not exceeding 7 per centum,
 11 or 1 per centum in excess of the discount rate of the Federal
 12 reserve bank in the Federal reserve district where the bank
 13 is located, whichever may be the greater, and such interest
 14 may be taken in advance, reckoning the days for which the
 15 note, bill, or other evidence of debt has to run.”

16 SEC. 24. No national banking association or member
 17 bank shall promise or pay to its depositors as a considera-
 18 tion for the maintenance of deposit balances or accounts a
 19 rate of interest in excess of one-half the rate of interest spec-
 20 ified in section 5197 of the Revised Statutes, as amended,
 21 and whenever such depositors are bankers who maintain
 22 balances with other banks, no such association or member
 23 bank shall promise or pay for the maintenance with it of
 24 such bankers' balances a rate of interest in excess of the
 25 current rate of discount of the Federal reserve bank of the

1 district in which the depository bank is located, or in excess
2 of $2\frac{1}{2}$ per centum per annum, whichever rate shall be the
3 smaller.

4 SEC. 25. (a) The second sentence of the first para-
5 graph of section 5200 of the Revised Statutes, as amended,
6 is amended by inserting before the period at the end thereof
7 the following: "and shall include in the case of obligations
8 of a corporation all obligations of all subsidiaries thereof."

9 (b) Paragraph (8) of section 5200 of the Revised
10 Statutes, as amended, is amended by inserting before the
11 period at the end thereof a colon and the following: "*Pro-*
12 *vided*, That no obligation of a broker or member of any
13 stock exchange or similar organization, or of any finance
14 company, securities company, investment trust, or other
15 similar institution, or of any affiliate, shall be entitled to the
16 benefits of the foregoing exceptions, but such obligations
17 shall in every case be subject to the limitations of 10 per
18 centum hereinbefore set forth in this section; except that the
19 total obligations of an affiliate shall in no case exceed the
20 said 10 per centum limitations, or the amount of the capital
21 stock of said affiliate actually paid in and unimpaired, which-
22 ever may be the smaller."

23 (c) Section 5200 of the Revised Statutes, as amended,
24 is further amended by adding at the end thereof the follow-
25 ing new paragraphs:

1 “ The aggregate amount of the obligations (including
2 repurchase agreements) of all the affiliates of a national
3 banking association shall not at any time exceed 10 per
4 centum of the capital stock of such association actually paid
5 in and unimpaired and 10 per centum of its unimpaired
6 surplus fund: *Provided*, That loans collateraled by Govern-
7 ment bonds, or by bonds issued by the State in which such
8 bank is situated, or issued by any political subdivision of
9 such State, shall not be included within the foregoing limi-
10 tations if actually owned by the borrower from such bank.

11 “ Within three years after this section as amended takes
12 effect, every affiliate shall be capitalized through the sale of
13 its own stock, which shall be paid for in full in cash upon
14 the same terms and conditions as provided in section 5140
15 of the Revised Statutes, as amended, in the case of national
16 bank stock; and no national bank shall establish or capitalize
17 an affiliate through cash or stock dividend declarations made
18 from its surplus or from undivided profits. No affiliate shall
19 at any time during such three-year period hold, or lend upon,
20 more than 10 per centum of the shares of the capital stock
21 of the parent institution.”

22 SEC. 26. Nothing in section 5200 of the Revised Stat-
23 utes, as amended, shall be construed to permit a member
24 bank to lend to any individual or corporation upon collateral

1 security an amount in excess of 10 per centum of its capital
 2 stock actually paid in and unimpaired and 10 per centum
 3 of its unimpaired surplus fund, or an amount in excess of
 4 the percentage of such capital and surplus fund as shall
 5 from time to time be designated by the Federal Reserve
 6 Board in accordance with subsection (m) of section 13 of
 7 the Federal Reserve Act, as amended, whichever is the
 8 smaller.

9 SEC. 27. Section 5211 of the Revised Statutes, as
 10 amended, is amended by adding at the end thereof the fol-
 11 lowing new paragraph:

12 "Each affiliate of a national banking association shall
 13 make and furnish to the president of the association, for
 14 transmission by him to the Comptroller of the Currency,
 15 not less than three reports during each year, in such form
 16 as the Comptroller may prescribe, verified by the oath or
 17 affirmation of the president or such other officer as may be
 18 designated by the board of directors of such affiliate to
 19 verify such reports, covering the condition of such affiliate
 20 on dates identical with those for which the Comptroller
 21 shall during such year require the reports of the condition
 22 of the association. Each such report of an affiliate shall
 23 be transmitted to the Comptroller at the same time as the
 24 corresponding report of the association; except that the
 25 Comptroller may, in his discretion, extend such time for

but good cause shown. Each such report shall exhibit in
 2 detail and under appropriate heads, the holdings of the
 3 affiliate in question, their cost and present value, the ex-
 4 penses of operation for the preceding year, and the balance
 5 sheet of the enterprise. It shall be the duty of the presi-
 6 dent of such association to satisfy himself as to the correctness
 7 of the report before transmitting the same to the Comptroller.
 8 The reports of its affiliates shall be published by the
 9 association under the same conditions as govern its own
 10 condition reports. The Comptroller shall also have power
 11 to call for special reports with respect to any such affiliate
 12 whenever in his judgment the same are necessary in order
 13 to obtain a full and complete knowledge of the conditions
 14 of the association with which it is affiliated. Any affiliate
 15 which fails to make and furnish any report required of
 16 it under this section, and any association whose president
 17 fails to transmit as required by this section any such report
 18 furnished to him, shall be subject to a penalty of \$100 for
 19 each day during which such failure continues: *Provided,*
 20 That every affiliate which shall be indebted to any bank
 21 or banks to an amount exceeding 5 per centum of the
 22 capital and surplus of its parent bank shall publish its entire
 23 portfolio at a date and in a manner to be prescribed by
 24 the Comptroller of the Currency but not oftener than once
 25 annually, and every affiliate which shall be so indebted to

1 an amount in excess of 10 per centum of the capital and
 2 surplus of its parent bank shall be required to publish its
 3 portfolio in at least one daily newspaper issued in the place
 4 where such bank is located within ten days after receiving
 5 notice therefor from the Comptroller, but such publication
 6 shall not be considered as a substitute for the annual pub-
 7 lication hereinbefore required."

8 SEC. 28. The first paragraph of section 5240 of the
 9 Revised Statutes, as amended, is amended by inserting before
 10 the period at the end thereof a colon and the following proviso:
 11 "*Provided*, That during the period of three years after this
 12 section as amended takes effect, in making the examination
 13 of any national bank or of any other member bank, the
 14 examiner shall include an examination of the affairs of all
 15 affiliates of such bank, and in the event of the refusal to give
 16 any information required in the course of the examination
 17 of any such affiliate, or in the event of the refusal to permit
 18 such examination, all the rights, privileges, and franchises
 19 of the bank shall be thereby forfeited, if a national bank,
 20 and if a bank or trust company organized under the law of
 21 any State, membership in the Federal reserve bank of its
 22 district shall be forfeited and no notice of the termination of
 23 such membership shall be required. The Comptroller of the
 24 Currency shall have power, and he is hereby authorized, to
 25 publish the report of his examination of any national bank-

1 ing association or affiliate which shall not within one
 2 hundred and twenty days after notification of the recom-
 3 mendations or suggestions of the Comptroller, based on said
 4 examination, have complied with the same to his satisfac-
 5 tion. Ninety days' notice prior to such publicity shall be
 6 given to the bank or affiliate."

7 SEC. 29. Whenever, in the opinion of the Comp-
 8 troller of the Currency, any director or officer of a national
 9 bank, or of a bank or trust company doing business in the
 10 District of Columbia, or whenever, in the opinion of a Fed-
 11 eral reserve agent, any director or officer of a member bank
 12 of his district (other than a national bank) shall have per-
 13 sistently violated any law relating to such bank or trust
 14 company or shall have continued unsafe or unsound prac-
 15 tices in conducting the business of such bank or trust com-
 16 pany, the Comptroller or the Federal reserve agent, as the
 17 case may be, shall certify the facts to the governor of the
 18 Federal Reserve Board. Thereupon the governor of the
 19 Federal Reserve Board shall serve notice upon such director
 20 or officer to appear before a committee consisting of the
 21 governor, the Comptroller of the Currency, and the Federal
 22 reserve agent of the district in which such bank or trust
 23 company is located to show cause why he should not be
 24 removed from office. If upon such hearing the committee
 25 finds that such director or officer has persistently violated any

1 such provision or has been responsible for the continuance
 2 of any such unsafe and unsound practices the committee
 3 may, in its discretion, by a majority vote order that he be
 4 removed from office. A copy of each such order shall be
 5 served upon such director or officer and upon the bank or
 6 trust company of which he is a director or officer. Any
 7 such director or officer upon whom any such order has been
 8 served as herein provided and who thereafter participates
 9 in any manner in the management of such bank or trust
 10 company shall be fined not more than \$5,000 or imprisoned
 11 not more than five years, or both.

12 SEC. 30. The right to alter, amend, or repeal this
 13 Act is hereby expressly reserved. If any clause, sentence,
 14 paragraph, or part of this Act shall for any reason be
 15 adjudged by any court of competent jurisdiction to be invalid,
 16 such judgment shall not affect, impair, or invalidate the
 17 remainder of this Act, but shall be confined in its operation
 18 to the clause, sentence, paragraph, or part thereof directly
 19 involved in the controversy in which such judgment shall
 20 have been rendered.

21 governor, the Comptroller of the Currency, and the Federal
 22 reserve agent of the district in which such bank or trust
 23 company is located to show cause why he should not be
 24 removed from office. If upon such hearing the committee
 25 finds that such director or officer has persistently violated any

RECEIVED
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 8-4-12

A. B. R. I. P.

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 14 (calendar day, MARCH 17), 1932

Read twice and referred to the Committee on
Banking and Currency

72D CONGRESS
2D SESSION

S. 4412

IN THE SENATE OF THE UNITED STATES

APRIL 18, 1932

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

APRIL 18, 1932

Reported by Mr. GLASS, without amendment

JANUARY 10 (calendar day, JANUARY 12), 1933

Ordered reprinted

[Showing existing law in roman, new matter in italics, and matter omitted in present law in line type]

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.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That the short title of this Act shall be the "Banking Act
4 of 1932."

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

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

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

8 (1) Of which a member bank, directly or indirectly,
9 owns or controls either a majority of the voting shares or
10 more than 50 per centum of the number of shares voted for
11 the election of its directors, trustees, or other persons exer-
12 cising similar functions at the preceding election, or con-
13 trols in any manner the election of a majority of its directors,
14 trustees, or other persons exercising similar functions; or

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

23 (3) Of which either a majority of the members of its
24 executive committee or a majority of its directors, trustees,

1 or other persons exercising similar functions are directors
2 of a member bank.

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

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

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

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

18 "Said board of directors shall administer the affairs
19 of said bank fairly and impartially and without discrimina-
20 tion in favor of or against member bank or banks and shall
21 may, subject to the provisions of law and the orders of
22 the Federal Reserve Board, extend to each member bank
23 such discounts, advancements, and accommodations as may
24 be safely and reasonably made with due regard for the

1 claims and demands of other member banks, the mainte-
 2 nance of sound credit conditions, and the accommodation of
 3 commerce, industry, and agriculture. The Federal Reserve
 4 Board may prescribe regulations further defining within the
 5 limitations of this Act the conditions under which discounts,
 6 advancements, and accommodations may be extended to
 7 member banks. Each Federal reserve bank shall keep
 8 itself informed of the general character and amount of the
 9 loans and investments of its member banks with a view to
 10 ascertaining whether undue use is being made of bank credit
 11 for the speculative carrying of or trading in securities,
 12 real estate, or commodities, or for any other purpose incon-
 13 sistent with the maintenance of sound credit conditions; and,
 14 in determining whether to grant or refuse advances, redis-
 15 counts or other credit accommodations, the Federal reserve
 16 bank shall give consideration to such information. The
 17 chairman of the Federal reserve bank shall report to the
 18 Federal Reserve Board any such undue use of bank credit
 19 by any member bank, together with his recommendation.
 20 Whenever, in the judgment of the Federal Reserve Board,
 21 any member bank is making such undue use of bank credit,
 22 the board may, in its discretion, after reasonable notice and
 23 an opportunity for a hearing, suspend such bank from the use
 24 of the credit facilities of the Federal reserve system and may

1 terminate such suspension or may renew it from time to
 2 time."

3 (b) The paragraph of section 4 of the Federal Reserve
 4 Act, as amended, which commences with the words "The
 5 Federal Reserve Board shall classify" is amended by insert-
 6 ing before the period at the end thereof a colon and the
 7 following: "Provided, That whenever any two or more
 8 member banks within the same Federal reserve district are
 9 affiliated with the same holding company affiliate, participa-
 10 tion by such member banks in any such nomination or
 11 election shall be confined to one of such banks, which may
 12 be designated for the purpose by such holding company
 13 affiliate."

14 SEC. 4. The first paragraph of section 7 of the Federal
 15 Reserve Act, as amended, is amended, effective July 1,
 16 1932, to read as follows:

17 "After all necessary expenses of a Federal reserve bank
 18 shall have been paid or provided for, the stockholders shall
 19 be entitled to receive an annual dividend of 6 per centum
 20 on the paid-in capital stock, which dividend shall be cumula-
 21 tive. After the aforesaid dividend claims have been fully
 22 met, the net earnings shall be paid to the United States as
 23 a franchise tax, except that the whole of such net earnings,
 24 including those for the year ending December 31, 1918, shall
 25 be paid into a surplus fund until it shall amount to 100 per

1 centum of the subscribed capital stock of such bank, and that
2 thereafter 10 per centum of such net earnings shall be paid
3 into the surplus into the surplus fund of the Federal reserve
4 bank.

All this lacks of being unanimous for the bankers is to include what will undoubtedly be the next step in this process, namely, appointment of members of the Federal Reserve Board by the bankers themselves rather than by the President of the United States, with the advice and consent of the Senate.

I do not understand why the Senator did not go ahead and change the following paragraph of the Federal reserve act so as to give all the past proceeds from this tax to the bankers and to have then thrown in for good measure any proceeds to be derived from the liquidation of any Federal reserve bank in the future to these private bankers:

(1) The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. (2) Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

5 SEC. 5. (a) The second paragraph of section 9 of the
6 Federal Reserve Act, as amended, is amended by adding
7 at the end thereof the following: "Provided, however, That
8 nothing herein contained shall prevent any State member
9 bank from establishing and operating branches in the United
10 States or any dependency or insular possession thereof or in
11 any foreign country, on the same terms and conditions and
12 subject to the same limitations and restrictions as are appli-
13 cable to the establishment of branches by national banks."

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

1 "Each bank admitted to membership under this section
2 shall obtain from each of its affiliates other than member
3 banks and furnish to the Federal reserve bank of its district
4 and to the Federal Reserve Board not less than three reports
5 during each year. Such reports shall be in such form as
6 the Federal Reserve Board may prescribe, shall be verified
7 by the oath or affirmation of the president or such other
8 officer as may be designated by the board of directors of
9 such affiliate to verify such reports, and shall disclose the
10 information hereinafter provided for as of dates identi-
11 cal with those fixed by the Federal Reserve Board for
12 reports of the condition of the affiliated member bank.
13 Each such report of an affiliate shall be transmitted as
14 herein provided at the same time as the corresponding
15 report of the affiliated member bank, except that the Fed-
16 eral Reserve Board may, in its discretion, extend such time
17 for good cause shown. Each such report shall contain such
18 information as in the judgment of the Federal Reserve
19 Board shall be necessary to disclose fully the relations
20 between such affiliate and such bank and to enable the board
21 to inform itself as to the effect of such relations upon the
22 affairs of such bank. The reports of such affiliates shall
23 be published by the bank under the same conditions as
24 govern its own condition reports.

Comment furnished
SENATOR LONG

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

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

21 "State member banks shall be subject to the same limita-
 22 tions and conditions with respect to the purchasing, selling,
 23 underwriting, and holding of investment securities and stock
 24 as are applicable in the case of national banks under para-

1 graph 'Seventh' of section 5136 of the Revised Statutes, as
 2 amended.

3 "After three years from the date of the enactment of
 4 the Banking Act of 1932, no certificate representing the stock
 5 of any State member bank shall represent the stock of any
 6 other corporation, except a member bank, nor shall the owner-
 7 ship, sale, or transfer of any certificate representing the
 8 stock of any such bank be conditioned in any manner what-
 9 soever upon the ownership, sale, or transfer of a certificate
 10 representing the stock of any other corporation, except a
 11 member bank.

12 "The holding company affiliates of all banks admitted
 13 to membership under this section shall be subject to the
 14 provisions of section 5144 of the Revised Statutes, as
 15 amended. Whenever the Federal Reserve Board shall have
 16 revoked the voting permit of any such holding company
 17 affiliate, the Federal Reserve Board may, in its discretion,
 18 require any or all State member banks affiliated with such
 19 holding company affiliate to surrender their stock in the
 20 Federal reserve bank and to forfeit all rights and privileges
 21 of membership in the Federal reserve system as provided in
 22 this section.

23 "In connection with examinations of State member
 24 banks, examiners selected or approved by the Federal

1 Reserve Board shall make such examinations of the affairs
 2 of all affiliates of such banks as shall be necessary to disclose
 3 fully the relations between such banks and their affiliates
 4 and the effect of such relations upon the affairs of such banks.
 5 The expense of examination of affiliates of any State member
 6 bank may, in the discretion of the Federal Reserve Board,
 7 be assessed against such bank and, when so assessed, shall
 8 be paid by such bank. In the event of the refusal to give
 9 any information requested in the course of the examination
 10 of any such affiliate, or in the event of the refusal to permit
 11 such examination, or in the event of the refusal to pay
 12 any expense so assessed, the Federal Reserve Board may,
 13 in its discretion, require any or all State member banks
 14 affiliated with such affiliate to surrender their stock in the
 15 Federal reserve bank and to forfeit all rights and privileges
 16 of membership in the Federal reserve system, as provided
 17 in this section."

The Secretary of the Treasury eliminated from the Federal Reserve Board.

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

21 "A Federal Reserve Board is hereby created which shall
 22 consist of ~~eight~~ seven members, including the Secretary of the
 23 Treasury and the Comptroller of the Currency, who shall be
 24 members a member ex officio, and six members appointed by

1 the President of the United States, by and with the advice
 2 and consent of the Senate. In selecting the six appointive
 3 members of the Federal Reserve Board, not more than one
 4 of whom shall be selected from any one Federal reserve
 5 district, the President shall have due regard to a fair repre-
 6 sentation of the financial, agricultural, industrial, and com-
 7 mercial interests, and geographical divisions of the country,
 8 and at least two of such members shall be persons of tested
 9 banking experience. The six members of the Federal
 10 Reserve Board appointed by the President and confirmed
 11 as aforesaid shall devote their entire time to the business of
 12 the Federal Reserve Board and shall each receive an annual
 13 salary of \$12,000, payable monthly, together with actual
 14 necessary traveling expenses, and the Comptroller of the
 15 Currency, as ex officio member of the Federal Reserve
 16 Board, shall, in addition to the salary now paid him as
 17 Comptroller of the Currency, receive the sum of \$7,000
 18 annually for his services as a member of said board."

19 (b) The second paragraph of section 10 of the Fed-
 20 eral Reserve Act, as amended, is amended to read as follows:

21 "The Secretary of the Treasury and the The Comp-
 22 troller of the Currency shall be ineligible during the time
 23 they are he is in office and for two years thereafter to hold
 24 any office, position, or employment in any member bank.
 25 The appointive members of the Federal Reserve Board

1 shall be ineligible during the time they are in office and
 2 for two years thereafter to hold any office, position, or
 3 employment in any member bank, except that this restric-
 4 tion shall not apply to a member who has served the full
 5 term for which he was appointed. Of the six members thus
 6 appointed by the President one shall be designated by the
 7 President to serve for two, one for four, one for six, one
 8 for eight, and the balance of the members for ten years,
 9 and thereafter each member appointed shall serve for a
 10 term of ten years, unless sooner removed for cause by the
 11 President. Upon the expiration of the term of any appoin-
 12 tive member of the Federal Reserve Board in office when
 13 this paragraph as amended takes effect, the President shall
 14 fix the term of the successor to such member at not to exceed
 15 twelve years, as designated by the President at the time
 16 of nomination, but in such manner as to provide for the
 17 expiration of the term of not more than one appointive
 18 member in any two-year period, and thereafter each appoin-
 19 tive member shall hold office for a term of twelve years
 20 from the expiration of the term of his predecessor. Of the
 21 six persons thus appointed, one shall be designated by the
 22 President as governor and one as vice governor of the Fed-
 23 eral Reserve Board. The governor of the Federal Reserve
 24 Board, subject to its supervision, shall be ~~the~~ its active
 25 executive officer. The Secretary of the Treasury may

1 assign offices in the Department of the Treasury for the
 2 use of the Federal Reserve Board. Each member of the
 3 Federal Reserve Board shall within fifteen days after notice
 4 of appointment make and subscribe to the oath of office.
 5 (c) The fourth paragraph of section 10 of the
 6 Federal Reserve Act, as amended, is amended to read as
 7 follows:
 8 The first meeting of the Federal Reserve Board shall
 9 be held in Washington, District of Columbia, as soon as may
 10 be after the passage of this Act, at a date to be fixed by the
 11 Reserve Bank Organization Committee. The Secretary of
 12 the Treasury shall be ex-officio chairman of the Federal
 13 Reserve Board.
 14 "The principal offices of the board shall be in the Dis-
 15 trict of Columbia. At meetings of the board the governor
 16 shall preside as chairman, and, in his absence, the vice gov-
 17 ernor shall preside. In the absence of both the governor
 18 and the vice governor, the board shall elect a member to act
 19 as chairman pro tempore. No member of the Federal Re-
 20 serve Board shall be an officer or director of any bank, bank-
 21 ing institution, trust company, or Federal reserve bank nor
 22 or hold stock in any bank, banking institution, or trust com-
 23 pany; and before entering upon his duties as a member of
 24 the Federal Reserve Board he shall certify under oath to the
 25 Secretary of the Treasury that he has complied with this

1 requirement and such certification shall be filed with the
 2 secretary of the board. Whenever a vacancy shall occur,
 3 other than by expiration of term, among the six members
 4 of the Federal Reserve Board appointed by the President as
 5 above provided, a successor shall be appointed by the
 6 President, by and with the advice and consent of the Senate,
 7 to fill such vacancy, and when appointed he shall hold office
 8 for the unexpired term of the member whose place he is
 9 selected to fill his predecessor."

10 SEC. 7. The Federal Reserve Act, as amended, is
 11 amended by inserting between sections 12 and 13 thereof
 12 the following new sections:

13 "SEC. 12A. (a) There is hereby created a Federal
 14 Open Market Committee (hereinafter referred to as the
 15 committee), which shall consist of as many members as
 16 there are Federal reserve districts. Each Federal reserve
 17 bank by its board of directors shall annually select one
 18 member of said committee. The meetings of said com-
 19 mittee shall be held at Washington, District of Columbia,
 20 at least four times each year, upon the call of the governor
 21 of the Federal Reserve Board or at the request of any
 22 three members of the committee, and, in the discretion of
 23 the board, may be attended by the members of the board.
 24 "(b) No Federal reserve bank shall engage in open
 25 market operations under section 14 of this Act except in

1 accordance with resolutions adopted by the committee and
 2 approved by the Federal Reserve Board as hereinafter pro-
 3 vided. The committee shall consider, adopt, and transmit
 4 to the several Federal reserve banks resolutions relating to
 5 the open market transactions of such banks and the relations
 6 of the Federal reserve system with foreign central or other
 7 foreign banks. Every such resolution shall be reported to
 8 the Federal Reserve Board and be subject to its approval.
 9 "(c) The time, character, and volume of all purchases
 10 and sales of paper described in section 14 of this Act as
 11 eligible for open market operations shall be governed with
 12 a view to accommodating commerce and business and with
 13 regard to their bearing upon the general credit situation of
 14 the country.

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

21 "SEC. 12B. (a) There is hereby created a Federal
 22 Liquidating Corporation (hereinafter referred to as the
 23 corporation), whose duty it shall be to purchase, hold, and
 24 liquidate as hereinafter provided, the assets of national banks
 25 which have been closed by action of the Comptroller of the

1 Currency, or by vote of their directors, and the assets of
2 State member banks which have been closed by action of the
3 appropriate State authorities, or by vote of their directors.

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

13 "(c) There is hereby authorized to be appropriated,
14 out of any money in the Treasury not otherwise appro-
15 priated, the sum of \$125,000,000, which shall be made
16 immediately available to the corporation as paid-in surplus
17 for the purpose of carrying out the provisions of this section.
18 Such sum shall be in addition to the amount of capital stock
19 required to be subscribed for by Federal reserve banks and
20 member banks as hereinafter provided.

21 "(d) The capital stock of the corporation shall be
22 divided into shares of \$100 each. Certificates of stock of
23 the corporation shall be of two classes, class A and class B.
24 Class A stock shall be held by member banks only and they
25 shall be entitled to payment of dividends out of net earnings

1 at the rate of 6 per centum per annum on the capital stock
2 paid in by them, which dividends shall be cumulative, or to the
3 extent of 30 per centum of such net earnings in any one year,
4 whichever amount shall be the greater, but such stock shall
5 have no vote at meetings of stockholders. Class B stock
6 shall be held by Federal reserve banks only and shall not
7 be entitled to the payment of dividends. Every Federal
8 reserve bank shall subscribe to shares of class B stock in
9 the corporation to an amount equal to one-fourth of the
10 surplus of such bank on July 1, 1932, and its subscriptions
11 shall be accompanied by a certified check payable to the
12 corporation in an amount equal to one-half of such subscrip-
13 tion. The remainder of such subscription shall be subject
14 to call from time to time by the board of directors upon
15 ninety days' notice.

16 “(e) Every member bank shall subscribe to the class
17 A capital stock of the corporation in an amount equal to
18 one-fourth of 1 per centum of its total net outstanding time
19 and demand deposits on July 1, 1932, as computed in
20 accordance with regulations of the Federal Reserve Board
21 governing the computation of reserves. One-half of such
22 subscription shall be paid in full within ninety days after
23 receipt of notice from the chairman of the board of directors
24 of the corporation, and the remainder of such subscription

1 shall be subject to call from time to time by the board of
2 directors of the corporation.

3 “(f) The amount of the outstanding class A stock of
4 the corporation held by member banks shall be annually
5 adjusted as hereinafter provided as of the last preceding
6 call date as member banks increase their time and demand
7 deposits or as additional banks become members, and such
8 stock may be decreased in amount as member banks reduce
9 their time and demand deposits or cease to be members.
10 Shares of the capital stock of the corporation owned by
11 member banks shall not be transferred or hypothecated.
12 When a member bank increases its time and demand
13 deposits, it shall, at the beginning of each calendar year,
14 subscribe for an additional amount of capital stock of the
15 corporation equal to one-fourth of 1 per centum of such
16 increase in deposits. One-half of the amount of such addi-
17 tional stock shall be paid for at the time of the subscription
18 therefor and the balance shall be subject to call by the board
19 of directors of the corporation. A bank admitted to mem-
20 bership in the Federal reserve system at any time after the
21 organization of the corporation shall be required to sub-
22 scribe for an amount of class A capital stock equal to
23 one-fourth of 1 per centum of the time and demand
24 deposits of the applicant bank as of the date of such ad-
25 mission, paying therefor its par value plus one-half of 1

1 per centum a month from the period of the last dividend on
2 the class A stock of the corporation. When a member bank
3 reduces its time and demand deposits it shall surrender, not
4 later than the 1st day of January thereafter, a proportionate
5 amount of its holdings in the capital stock of the corporation,
6 and when a member bank voluntarily liquidates it shall sur-
7 render all its holdings of the capital stock of the corporation
8 and be released from its stock subscription not previously
9 called. The shares so surrendered shall be canceled and
10 the member bank shall receive in payment therefor, under
11 regulations to be prescribed by the Federal Reserve Board,
12 a sum equal to its cash-paid subscriptions on the shares
13 surrendered and its proportionate share of dividends not to
14 exceed one half of 1 per centum a month, from the period
15 of the last dividend on such stock, less any liability of such
16 member bank to the corporation.

17 “(g) If any member bank shall be declared insolvent,
18 the stock held by it in the corporation shall be canceled,
19 without impairment of the liability of such bank, and all
20 cash-paid subscriptions on such stock, with its proportionate
21 share of dividends not to exceed one half of 1 per centum
22 per month from the period of last dividend on such stock
23 shall be first applied to all debts of the insolvent bank or
24 the receiver thereof to the corporation, and the balance, if
25 any, shall be paid to the receiver of the insolvent bank.

1 *“(h) Upon the date of enactment of the Banking Act*
 2 *of 1932, the corporation shall become a body corporate and*
 3 *as such shall have power—*

4 *“First. To adopt and use a corporate seal.*

5 *“Second. To have succession until dissolved by an Act*
 6 *of Congress.*

7 *“Third. To make contracts.*

8 *“Fourth. To sue and be sued, complain and defend,*
 9 *in any court of law or equity, State or Federal.*

10 *“Fifth. To appoint by its board of directors such offi-*
 11 *cers and employees as are not otherwise provided for in this*
 12 *section, to define their duties, fix their compensation,*
 13 *require bonds of them and fix the penalty thereof, and to*
 14 *dismiss at pleasure such officers or employees. Nothing in*
 15 *this or any other Act shall be construed to prevent the*
 16 *appointment and compensation as an officer or employee*
 17 *of the corporation of any officer or employee of the United*
 18 *States in any board, commission, independent establishment,*
 19 *or executive department thereof.*

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

24 *“Seventh. To exercise by its board of directors, or duly*
 25 *authorized officers or agents, all powers specifically granted*

1 *by the provisions of this section and such incidental powers*
 2 *as shall be necessary to carry out the powers so granted.*

3 *“(i) The board of directors shall administer the*
 4 *affairs of the corporation fairly and impartially and without*
 5 *discrimination in favor of or against any member bank or*
 6 *banks and may, subject to the provisions of law, extend to*
 7 *each national bank which is closed by action of the Comp-*
 8 *troller of the Currency, or by vote of its directors, and to*
 9 *each State member bank which is closed by action of the*
 10 *appropriate State authorities, or by vote of its directors, such*
 11 *accommodations as may be safely and reasonably made*
 12 *with due regard for the claims and demands of other mem-*
 13 *ber banks. The board of directors of the corporation shall*
 14 *determine and prescribe the manner in which its obligations*
 15 *shall be incurred and its expenses allowed and paid. The*
 16 *corporation shall be entitled to the free use of the United*
 17 *States mails in the same manner as the executive depart-*
 18 *ments of the Government. The corporation with the con-*
 19 *sent of any Federal reserve bank or of any board, commis-*
 20 *sion, independent establishment, or executive department*
 21 *of the Government, including any field service thereof, may*
 22 *avail itself of the use of information, services, and facilities*
 23 *thereof in carrying out the provisions of this section.*

24 *“(j) Whenever any member bank shall have been*
 25 *closed by action of its board of directors, the Comptroller of*

1 the Currency, or the appropriate State authority, as the case
 2 may be, the receiver may tender the assets of such bank to
 3 the corporation which may purchase the same, or make a loan
 4 on the security thereof, in whole or in part, as in the deter-
 5 mination of its board of directors the prompt and economical
 6 liquidation of the assets of such bank may require, on the
 7 basis of such valuations as may be agreed upon by a valua-
 8 tion committee of three members consisting of the receiver
 9 of such bank, a member to be named by the board of direc-
 10 tors of such bank, and a person to be chosen by the re-
 11 ceiver and the member named by such board of directors.
 12 It shall be the duty of the corporation to proceed to
 13 realize as rapidly as possible, having due regard to the
 14 condition of credit in the district in which such bank
 15 is located, upon any assets so purchased, and if the net
 16 amount realized from the sale or other disposition of such
 17 assets exceeds the sum paid therefor, the corporation shall
 18 make an additional payment to the receiver of the bank
 19 equal to the amount of such excess, if any, after deducting a
 20 liquidation fee of 8 per centum of the sum thus realized; but
 21 any income derived by the corporation from such assets shall
 22 be the property of the corporation. Money of the corpora-
 23 tion not otherwise employed shall be invested in securities
 24 of the Government of the United States, except that for
 25 temporary periods, in the discretion of the board of directors,

1 funds of the corporation may be deposited subject to check
 2 in any Federal reserve bank or with the Treasurer of the
 3 United States. When designated for that purpose by the
 4 Secretary of the Treasury, the corporation shall be a deposi-
 5 tary of public moneys, except receipts from customs, under
 6 such regulations as may be prescribed by the said Secretary,
 7 and may also be employed as a financial agent of the Govern-
 8 ment. It shall perform all such reasonable duties as deposi-
 9 tary of public moneys and financial agent of the Government
 10 as may be required of it.

11 “(k) The corporation may, in its discretion, purchase
 12 the assets of banks in the hands of receivers on the date of
 13 its organization, but on the same conditions and terms as are
 14 applicable in the case of assets of banks which may fail or
 15 be closed after such date. Nothing herein contained shall
 16 be construed to prevent the corporation from making loans
 17 to national banks closed by action of the Comptroller of the
 18 Currency, or by vote of their directors, or to State member
 19 banks closed by action of the appropriate State authorities,
 20 or by vote of their directors, or from entering into negotia-
 21 tions to secure the reopening of such banks.

22 “(1) Receivers or liquidators of member banks which
 23 are now or may hereafter become insolvent or suspended
 24 shall be entitled to offer the assets of such banks for sale to
 25 the corporation or as security for loans from the corpora-

1 tion, upon receiving permission from the appropriate State
 2 authority in accordance with express provision of State law
 3 in the case of State member banks, or from the Comptroller
 4 of the Currency in the case of national banks. The pro-
 5 ceeds of every such sale or loan shall be utilized for the same
 6 purposes and in the same manner as other funds realized
 7 from the liquidation of the assets of such banks. The Comp-
 8 troller of the Currency may, in his discretion, pay dividends
 9 on proved claims at any time after the expiration of the
 10 period of advertisement made pursuant to section 5235 of
 11 the Revised Statutes, and no liability shall attach to the
 12 Comptroller of the Currency or to the receiver of any
 13 national bank by reason of any such payment for failure to
 14 pay dividends to a claimant whose claim is not proved at
 15 the time of any such payment.

16 “(m) The corporation is authorized and empowered
 17 to issue and to have outstanding at any one time in an
 18 amount aggregating not more than twice the sum of its
 19 capital and the amount authorized to be appropriated pur-
 20 suant to paragraph (c) of this section, its notes, debentures,
 21 bonds, or other such obligations, to be redeemable at the
 22 option of the corporation before maturity in such manner as
 23 may be stipulated in such obligations, and to bear such rate
 24 or rates of interest, and to mature at such time or times as
 25 may be determined by the corporation: Provided, That the

1 corporation may sell on a discount basis short-term obliga-
 2 tions payable at maturity without interest. The notes,
 3 debentures, bonds, and other such obligations of the corpora-
 4 tion may be secured by assets of the corporation in such
 5 manner as shall be prescribed by its board of directors. Such
 6 obligations may be offered for sale at such price or prices
 7 as the corporation may determine.

8 “(n) All notes, debentures, bonds, or other such obliga-
 9 tions issued by the corporation shall be exempt, both as to
 10 principal and interest, from all taxation (except estate and
 11 inheritance taxes) now or hereafter imposed by the United
 12 States, by any Territory, dependency, or possession thereof,
 13 or by any State, county, municipality, or local taxing author-
 14 ity. The corporation, including its franchise, its capital,
 15 reserves, and surplus, and its income, shall be exempt from
 16 all taxation now or hereafter imposed by the United States,
 17 by any Territory, dependency, or possession thereof, or by
 18 any State, county, municipality, or local taxing authority,
 19 except that any real property of the corporation shall be
 20 subject to State, Territorial, county, municipal, or local tax-
 21 ation to the same extent according to its value as other real
 22 property is taxed.

23 “(o) In order that the corporation may be supplied
 24 with such forms of notes, debentures, bonds, or other such
 25 obligations as it may need for issuance under this Act, the

1 Secretary of the Treasury is authorized to prepare such
 2 forms as shall be suitable and approved by the corporation,
 3 to be held in the Treasury subject to delivery, upon order
 4 of the corporation. The engraved plates, dies, bed pieces,
 5 and other material executed in connection therewith shall
 6 remain in the custody of the Secretary of the Treasury.
 7 The corporation shall reimburse the Secretary of the Treas-
 8 ury for any expenses incurred in the preparation, custody,
 9 and delivery of such notes, debentures, bonds, or other
 10 such obligations.

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

14 “(q) Whoever, for the purpose of obtaining any loan
 15 from the corporation, or any extension or renewal thereof,
 16 or the acceptance, release, or substitution of security there-
 17 for, or for the purpose of inducing the corporation to pur-
 18 chase any assets, or for the purpose of influencing in any
 19 way the action of the corporation under this section, makes
 20 any statement, knowing it to be false, or wilfully overvalues
 21 any security, shall be punished by a fine of not more than
 22 \$5,000 or by imprisonment for not more than two years, or
 23 both.

24 “(r) Whoever (1) falsely makes, forges, or counter-
 25 feits any obligation or coupon, in imitation of or purporting

1 to be an obligation or coupon issued by the corporation, or
 2 (2) passes, utters, or publishes, or attempts to pass, utter,
 3 or publish, any false, forged, or counterfeited obligation or
 4 coupon purporting to have been issued by the corporation,
 5 knowing the same to be false, forged, or counterfeited, or
 6 (3) falsely alters any obligation or coupon issued or pur-
 7 porting to have been issued by the corporation, or (4)
 8 passes, utters, or publishes, or attempts to pass, utter, or
 9 publish, as true, any falsely altered or spurious obligation or
 10 coupon, issued or purporting to have been issued by the cor-
 11 poration, knowing the same to be falsely altered or spurious,
 12 shall be punished by a fine of not more than \$10,000 or by
 13 imprisonment for not more than five years, or both.

14 “(s) Whoever, being connected in any capacity with
 15 the corporation, (1) embezzles, abstracts, purloins, or will-
 16 fully misapplies any moneys, funds, securities, or other
 17 things of value, whether belonging to it or pledged, or
 18 otherwise intrusted to it, or (2) with intent to defraud the
 19 corporation or any other body, politic or corporate, or any
 20 individual, or to deceive any officer, auditor, or examiner
 21 of the corporation, makes any false entry in any book,
 22 report, or statement of or to the corporation, or without
 23 being duly authorized draws any order or issues, puts forth
 24 or assigns any note, debenture, bond, or other such obliga-
 25 tion, or draft, bill of exchange, mortgage, judgment, or

1 decree thereof, shall be punished by a fine of not more than
2 \$10,000 or by imprisonment for not more than five years,
3 or both.

4 “(t) No individual, association, partnership, or cor-
5 poration shall use the words ‘Federal Liquidating Corpora-
6 tion,’ or a combination of these three words, as the name
7 or a part thereof under which he or it shall do business.
8 Every individual, partnership, association, or corporation
9 violating this subdivision shall be punished by a fine of not
10 exceeding \$1,000 or by imprisonment not exceeding one
11 year, or both.

12 “(u) The provisions of sections 112, 113, 114, 115
13 116, and 117 of the Criminal Code of the United States
14 (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive), in
15 so far as applicable, are extended to apply to contracts or
16 agreements with the corporation under this section, which for
17 the purposes hereof shall be held to include loans, advances,
18 extensions, and renewals thereof, and acceptances, releases,
19 and substitutions of security therefor, purchases or sales of
20 assets, and all contracts and agreements pertaining to the
21 same.

22 (v) The Secret Service Division of the Treasury
23 Department is authorized to detect, arrest, and deliver
24 into the custody of the United States marshal having

1 jurisdiction any person committing any of the offenses
2 punishable under this section.”

3 SEC. 8. The seventh paragraph of section 13 of the
4 Federal Reserve Act, as amended, is amended to read as
5 follows:

6 “Any Federal reserve bank may make advances to
7 its member banks on their promissory notes for a period
8 not exceeding fifteen days at rates to be established by such
9 Federal reserve bank, subject to the review and determina-
10 tion of the Federal Reserve Board, provided such promis-
11 sory notes are secured by such notes, drafts, bills of exchange,
12 or bankers’ acceptances as are eligible for rediscount or for
13 purchase by Federal reserve banks under the provisions of
14 this Act, or by the deposit or pledge of bonds or notes of
15 the United States. If any member bank to which any
16 such advance has been made shall, during the life or con-
17 tinuance of such advance, and despite an official warning
18 of the reserve bank of the district or of the Federal Reserve
19 Board to the contrary, increase its outstanding loans secured
20 by collateral in the form of stocks, bonds, debentures, or
21 other such obligations, or loans made to members of any
22 organized stock exchange, investment house, or dealer in
23 securities, upon any obligation, note, or bill, secured or
24 unsecured, for the purpose of purchasing and/or carrying

1 stocks, bonds, or other investment securities (except obliga-
2 tions of the United States), such advance shall be deemed
3 immediately due and payable, and such member bank shall
4 be ineligible as a borrower at the reserve bank of the district
5 under the provisions of this paragraph for such period as
6 the Federal Reserve Board shall determine."

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

10 "(g) The Federal Reserve Board shall exercise special
11 supervision over all relationships and transactions of any
12 kind entered into by any Federal reserve bank with any
13 foreign bank or banker, or with any group of foreign banks
14 or bankers, and all such relationships and transactions shall
15 be subject to such regulations, conditions, and limitations as
16 the board may prescribe. No officer or other representa-
17 tive of any Federal reserve bank shall conduct negotiations
18 of any kind with the officers or representatives of any
19 foreign bank or banker without first obtaining the permis-
20 sion of the Federal Reserve Board. The Federal Reserve
21 Board shall have the right, in its discretion, to be represented
22 in any conference or negotiations by such representative or
23 representatives as the board may designate. A full report
24 of all conferences or negotiations, and all understandings or
25 agreements arrived at or transactions agreed upon, and all

1 other material facts appertaining to such conferences or
2 negotiations, shall be filed with the Federal Reserve Board
3 in writing by a duly authorized officer of each Federal reserve
4 bank which shall have participated in such conferences or
5 negotiations."

Section 10 of the Glass bill is here offered as an amendment to section 19 of the Federal reserve act. It seems to me that the subject matter of this new paragraph is not germane to that of the paragraph of section 19 among which it is to be placed.

Section 19 of the Federal reserve act deals with bank reserves, whereas this new paragraph seems to me to deal with the so-called leakage of Federal Reserve funds into the stock market, and probably has some relation to member banks performing the functions of brokers, speculators, conjurers, and so forth.

To my way of thinking the subject matter in this proposed insertion is germane to section 22 of the Federal reserve act, and not to section 19, and if that is not correct, then I would say that it probably should be inserted as a new section, between sections 23 and 24, just as section 11 of the Glass bill proposes to do, with similar subject matter.

If this criticism be correct and is applicable also to some one or two sections of this bill, as I think it is, then it shows one of two things: Either that this bill has been written by some one else (Doctor Willis who has been, since 1913, economic adviser to Senator Glass) in a very stupid manner and has not been read by the Senator, or that it must be even a stronger reflection on the Senator's intelligence.

In the light of the clumsy wording of the previous sections criticised by you and this obvious defect to which we have just now referred, makes of the bill one of the most stupid concoctions I have come in contact with; or moreover, it may be evidence of the fact that anything the big bankers dictate will be readily accepted by the Senator and inserted without criticism on his part or the opportunity extended to others to criticise the bill in public hearings, and so forth.

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

9 "No member bank shall act as the medium or agent of
10 any nonbanking corporation, partnership, association, busi-
11 ness trust, or individual in making loans on the security of
12 stocks, bonds, and other investment securities to brokers or

Comment furnished
SENATOR LONG

1 dealers in stocks, bonds, and other investment securities.
2 Every violation of this provision by any member bank shall
3 be punishable by a fine of not more than \$100 per day during
4 the continuance of such violation; and such fine may be col-
5 lected, by suit or otherwise, by the Federal reserve bank
6 of the district in which such member bank is located."

7 SEC. 11. The Federal Reserve Act, as amended, is
8 amended by inserting between sections 23 and 24 thereof
9 the following new section:

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

1 such collateral security will exceed 20 per centum of the
2 capital stock and surplus of such member bank.

3 “ Within the foregoing limitations, each loan or exten-
4 sion of credit of any kind or character to an affiliate shall be
5 secured by collateral in the form of stocks, bonds, debentures,
6 or other such obligations having a market value at the time
7 of making the loan or extension of credit of at least 20 per
8 centum more than the amount of the loan or extension of
9 credit, or of at least 10 per centum more than the amount of
10 the loan or extension of credit if it is secured by obligations
11 of any State, or of any political subdivision or agency
12 thereof: Provided, That the provisions of this paragraph
13 shall not apply to loans or extensions of credit secured by
14 obligations of the United States Government, the Federal
15 intermediate credit banks, or the Federal land banks, or by
16 such notes, drafts, bills of exchange, or bankers' acceptances
17 as are eligible for rediscount or for purchase by Federal
18 reserve banks. A loan or extension of credit to a director,
19 officer, clerk, or other employee or any representative of
20 any such affiliate shall be deemed a loan to the affiliate to
21 the extent that the proceeds of such loan are used for the
22 benefit of, or transferred to, the affiliate.

23 “ For the purposes of this section the term ‘ affiliate ’
24 shall include holding company affiliates as well as other
25 affiliates, and the provisions of this section shall not apply

1 to any affiliate (1) engaged solely in holding the bank
 2 premises of the member bank with which it is affiliated,
 3 (2) engaged solely in conducting a safe-deposit business or
 4 the business of an agricultural credit corporation or livestock
 5 loan company, (3) in the capital stock of which a national
 6 banking association is authorized to invest pursuant to
 7 section 25 of the Federal Reserve Act, as amended,
 8 or (4) organized under section 25 (a) of the Federal
 9 Reserve Act, as amended; but as to any such affiliate, mem-
 10 ber banks shall continue to be subject to other provisions of
 11 law applicable to loans by such banks and investments by
 12 such banks in stocks, bonds, debentures, or other such
 13 obligations."

14 SEC. 12. The Federal Reserve Act, as amended, is
 15 amended by inserting between section 24 and section 25
 16 thereof the following new section:

17 "SEC. 24A. Hereafter no national bank, without the
 18 approval of the Comptroller of the Currency, and no State
 19 member bank, without the approval of the Federal Reserve
 20 Board, shall (1) invest in bank premises, or in the stock,
 21 bonds, debentures, or other such obligations of any corpora-
 22 tion holding the premises of such bank, or (2) make loans
 23 to or upon the security of the stock of any such corporation,
 24 if the aggregate of all such investments and loans will
 25 exceed the amount of the capital stock of such bank."

1 SEC. 13. The Federal Reserve Act, as amended, is
 2 further amended by inserting after section 25 (a) thereof
 3 the following new section:

4 "SEC. 25. (b) Notwithstanding any other provision
 5 of law all suits of a civil nature at common law or in equity
 6 to which any corporation organized under the laws of the
 7 United States shall be a party, arising out of transactions
 8 involving international or foreign banking, or banking in
 9 a dependency or insular possession of the United States,
 10 or out of other international or foreign financial operations,
 11 either directly or through the agency, ownership, or control
 12 of branches or local institutions in dependencies or insular
 13 possessions of the United States or in foreign countries,
 14 shall be deemed to arise under the laws of the United States,
 15 and the district courts of the United States shall have
 16 original jurisdiction of all such suits; and any defendant in
 17 any such suit may, at any time before the trial thereof,
 18 remove such suits from a State court into the district court
 19 of the United States for the proper district by following the
 20 procedure for the removal of causes otherwise provided by
 21 law."

22 SEC. 14. Paragraph "Seventh" of section 5136 of
 23 the Revised Statutes, as amended, is amended to read as
 24 follows:

1 *Seventh. To exercise by its board of directors or*
 2 *duly authorized officers or agents, subject to law, all such*
 3 *incidental powers as shall be necessary to carry on the busi-*
 4 *ness of banking; by discounting and negotiating promissory*
 5 *notes, drafts, bills of exchange, and other evidences of debt;*
 6 *by receiving deposits; by buying and selling exchange, coin,*
 7 *and bullion; by loaning money on personal security; and*
 8 *by obtaining, issuing, and circulating notes according to*
 9 *the provisions of this chapter title; and generally by engag-*
 10 *ing in all forms of banking business and undertaking all*
 11 *types of banking transactions that may, by the laws of the*
 12 *State in which such bank is situated, be permitted to banks of*
 13 *deposit and discount organized and incorporated under the*
 14 *laws of such State, except in so far as they may be for-*
 15 *bidden by the provisions of any Act of Congress. The busi-*
 16 *ness of dealing in investment securities by the association shall*
 17 *be limited to purchasing and selling such securities without*
 18 *recourse, solely upon the order, and for the account of,*
 19 *customers, and in no case for its own account, and the asso-*
 20 *ciation shall not underwrite any issue of securities: Pro-*
 21 *vided, That the association may purchase for its own*
 22 *account investment securities under such limitations and*
 23 *restrictions as the Comptroller of the Currency may by*
 24 *regulation prescribe, but in no event (1) shall the total*
 25 *amount of any issue of investment securities of any one*

1 *obligor or maker hereafter purchased and held by the asso-*
 2 *ciation for its own account exceed at any time 10 per*
 3 *centum of the total amount of such issue outstanding, but*
 4 *this limitation shall not apply to any such issue the total*
 5 *amount of which does not exceed \$100,000 and does not*
 6 *exceed 50 per centum of the capital of the association, nor*
 7 *(2) shall the total amount of the investment securities of*
 8 *any one obligor or maker hereafter purchased and held by*
 9 *the association for its own account exceed at any time 15*
 10 *per centum of the amount of the capital stock of the associa-*
 11 *tion actually paid in and unimpaired and 25 per centum of*
 12 *its unimpaired surplus fund. As used in this section the*
 13 *term 'investment securities' shall mean marketable obliga-*
 14 *tions evidencing indebtedness of any person, copartnership,*
 15 *association, or corporation in the form of bonds, notes and/or*
 16 *debentures commonly known as investment securities under*
 17 *such further definition of the term 'investment securities' as*
 18 *may by regulation be prescribed by the Comptroller of the*
 19 *Currency. Except as hereinafter provided or otherwise*
 20 *permitted by law, nothing herein contained shall authorize*
 21 *the purchase or holding by the association of any shares of*
 22 *stock of any corporation. The limitations herein contained*
 23 *as to investment securities shall not apply to obligations*
 24 *of the United States, or general obligations of any State or of*
 25 *any political subdivision thereof, or obligations issued under*

1 authority of the Federal Farm Loan Act, as amended: Pro-
 2 vided, That in carrying on the business commonly known as
 3 the safe-deposit business the association shall not invest in
 4 the capital stock of a corporation organized under the law of
 5 any State to conduct a safe-deposit business in an amount in
 6 excess of 15 per centum of the capital stock of the associa-
 7 tion actually paid in and unimpaired and 15 per centum of
 8 its unimpaired surplus."

9 SEC. 15. (a) Section 5138 of the Revised Statutes,
 10 as amended, is amended to read as follows:

11 "SEC. 5138. ~~No association~~ After this section as
 12 amended takes effect, no national banking association shall
 13 be organized with a less capital than \$100,000, except that
 14 ~~banks~~ such associations with a capital of not less than
 15 \$50,000 may with the approval of the Secretary of the
 16 Treasury be organized in any place the population of which
 17 does not exceed six thousand inhabitants, and except that
 18 ~~banks~~ with a capital of not less than \$25,000 may, with the
 19 sanction of the Secretary of the Treasury, be organized in
 20 any place the population of which does not exceed three
 21 thousand inhabitants. No such association shall be organ-
 22 ized in a city the population of which exceeds fifty thousand
 23 persons with capital of less than \$200,000, except that in the
 24 outlying districts of such a city where the State laws permit
 25 the organization of State banks with a capital of \$100,000

1 or less, national banking associations now organized or here-
 2 after organized may, with the approval of the Comptroller
 3 of the Currency, have a capital of not less than \$100,000."

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

6 "No applying bank shall be admitted to membership
 7 in a Federal reserve bank unless it possesses a paid-up unim-
 8 paired capital sufficient to entitle it to become a national
 9 banking association in the place where it is situated under
 10 the provisions of the National Bank Act, as amended."

11 SEC. 16. Section 5139 of the Revised Statutes, as
 12 amended, is amended by adding at the end thereof the fol-
 13 lowing new paragraph:

14 "After three years from the date of the enactment of
 15 the Banking Act of 1932, no certificate representing the
 16 stock of any such association shall represent the stock of
 17 any other corporation, except a member bank, nor shall the
 18 ownership, sale, or transfer of any certificate representing
 19 the stock of any such association be conditioned in any
 20 manner whatsoever upon the ownership, sale, or transfer
 21 of a certificate representing the stock of any other corpora-
 22 tion, except a member bank."

23 SEC. 17. Section 5144 of the Revised Statutes, as
 24 amended, is amended to read as follows:

1 “SEC. 5144. In all elections of directors and in de-
 2 ciding all questions at meetings of shareholders, each share-
 3 holder shall be entitled to one vote on each share of stock
 4 held by him; *except (1) that shares of its own stock held*
 5 *by a national bank as trustee shall not be voted, and (2)*
 6 *shares controlled by any holding company affiliate of a*
 7 *national bank shall not be voted unless such holding com-*
 8 *pany affiliate shall have first obtained a voting permit as*
 9 *hereinafter provided, which permit is in force at the time*
 10 *such shares are voted. Shareholders may vote by proxies*
 11 *duly authorized in writing; but no officer, clerk, teller, or*
 12 *bookkeeper of such association bank shall act as proxy;*
 13 *and no shareholder whose liability is past due and unpaid*
 14 *shall be allowed to vote.*

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

20 “*Any such holding company affiliate may make appli-*
 21 *cation to the Federal Reserve Board for a voting permit*
 22 *entitling it to cast one vote at all elections of directors of*
 23 *such bank on each share of stock controlled by it. The*
 24 *Federal Reserve Board may, in its discretion, grant or*
 25 *withhold such permit as the public interest may require.*

1 *In acting upon such application, the board shall consider*
 2 *the financial condition of the applicant, the general character*
 3 *of its management, and the probable effect of the granting*
 4 *of such permit upon the affairs of such bank, but no such*
 5 *permit shall be granted except upon the following conditions:*

6 “(a) *Every such holding company affiliate shall, in*
 7 *making the application for such permit, agree (1) to*
 8 *receive, on dates identical with those fixed for the examina-*
 9 *tion of banks with which it is affiliated, examiners duly*
 10 *authorized to examine such banks, who shall make such*
 11 *examinations of such holding company affiliate as shall be*
 12 *necessary to disclose fully the relations between such banks*
 13 *and such holding company affiliate and the effect of such*
 14 *relations upon the affairs of such banks, such examinations*
 15 *to be at the expense of the holding company affiliate so*
 16 *examined; (2) that the reports of such examiners shall*
 17 *contain such information as shall be necessary to disclose*
 18 *fully the relations between such affiliate and such banks*
 19 *and the effect of such relations upon the affairs of such*
 20 *banks; (3) that such examiners may examine each bank*
 21 *owned or controlled by the holding company affiliate, both*
 22 *individually and in conjunction with other banks owned or*
 23 *controlled by such holding company affiliate; and (4) that*
 24 *publication of individual or consolidated statements of con-*
 25 *dition of such banks may be required;*

1 “(b) After January 1, 1935, every such holding com-
 2 pany affiliate (1) shall possess, and shall continue to possess
 3 during the life of such permit, free and clear of the lien,
 4 pledge, or hypothecation of any nature, readily marketable
 5 assets other than bank stock in an amount not less than
 6 12 per centum of the aggregate par value of all bank stocks
 7 controlled by such holding company affiliate, which amount
 8 shall be increased by not less than 2 per centum per annum of
 9 such aggregate par value until such assets shall amount to 25
 10 per centum of the aggregate par value of such bank stocks;
 11 and (2) shall reinvest in readily marketable assets other than
 12 bank stock all net earnings over and above 6 per centum
 13 per annum on the book value of its own shares outstanding
 14 until such assets shall amount to 25 per centum of the
 15 aggregate par value of all bank stocks controlled by it;

16 “(c) Notwithstanding the foregoing provisions of this
 17 section, after January 1, 1935, (1) any such holding com-
 18 pany affiliate the shareholders or members of which shall
 19 be individually and severally liable in proportion to the
 20 number of shares of such holding company affiliate held by
 21 them respectively, in addition to amounts invested therein,
 22 for all statutory liability imposed on such holding company
 23 affiliate by reason of its control of shares of stock of banks,
 24 shall be required only to establish and maintain out of net
 25 earnings over and above 6 per centum per annum on the

1 book value of its own shares outstanding a reserve of readily
 2 marketable assets in an amount not less than 12 per centum
 3 of the aggregate par value of bank stocks controlled by it,
 4 and (2) the assets required by this section to be possessed
 5 by such holding company affiliate may be used by it for
 6 replacement of capital in banks affiliated with it and for
 7 losses incurred in such banks, but any deficiency in such
 8 assets resulting from such use shall be made up within such
 9 period as the Federal Reserve Board may by regulation
 10 prescribe;

11 “(d) Every officer, director, agent, and employee of
 12 every such holding company affiliate shall be subject to the
 13 same penalties for false entries in any book, report, or
 14 statement of such holding company affiliate as are applicable
 15 to officers, directors, agents, and employees of member
 16 banks under section 5209 of the Revised Statutes, as
 17 amended; and

18 “(e) Every such holding company affiliate shall, in its
 19 application for such voting permit, (1) show that it does not
 20 own, control, or have any interest in, and is not participating
 21 in the management or direction of, any corporation, business
 22 trust, association, or other similar organization formed for
 23 the purpose of, or engaged principally in, the issue, flota-
 24 tion, underwriting, public sale, or distribution, at wholesale
 25 or retail or through syndicate participation, of stocks, bonds,

1 debentures, notes, or other securities of any sort (hereinafter
 2 referred to as securities company); (2) agree that during
 3 the period that the permit remains in force it will not acquire
 4 any ownership, control, or interest in any such securities
 5 company or participate in the management or direction
 6 thereof; (3) agree that if, at the time of filing the application
 7 for such permit, it owns, controls, or has an interest in, or is
 8 participating in the management or direction of, any such
 9 securities company, it will, within three years after the filing
 10 of such application, divest itself of its ownership, control,
 11 and interest in such securities company and will cease par-
 12 ticipating in the management or direction thereof, and will
 13 not thereafter, during the period that the permit remains in
 14 force, acquire any further ownership, control, or interest in
 15 any such securities company or participate in the manage-
 16 ment or direction thereof; and (4) agree that thenceforth
 17 it will declare dividends only out of actual net earnings.
 18 "If at any time it shall appear to the Federal Reserve
 19 Board that any holding company affiliate has violated any
 20 of the provisions of the Banking Act of 1932 or of any
 21 agreement made pursuant to this section, the Federal Re-
 22 serve Board may, in its discretion, revoke any such voting
 23 permit after giving sixty days' notice by registered mail of
 24 its intention to the holding company affiliate and affording
 25 it an opportunity to be heard. Whenever the Federal Re-

1 serve Board shall have revoked any such voting permit, no
 2 national bank whose stock is controlled by the holding com-
 3 pany affiliate whose permit is so revoked shall receive deposits
 4 of public moneys of the United States, nor shall any such
 5 national bank pay any further dividend to such holding
 6 company affiliate upon any shares of such bank controlled by
 7 such holding company affiliate.

8 "Whenever the Federal Reserve Board shall have re-
 9 voked any voting permit as hereinbefore provided, the rights,
 10 privileges, and franchises of any or all national banks
 11 the stock of which is controlled by such holding company
 12 affiliate shall, in the discretion of the Federal Reserve Board,
 13 be subject to forfeiture in accordance with section 2 of the
 14 Federal Reserve Act, as amended."

15 SEC. 18. After three years from the date of the enact-
 16 ment of this Act, no member bank shall be affiliated in any
 17 manner described in section 2 (b) hereof with any corpo-
 18 ration, association, business trust, or other similar organiza-
 19 tion engaged principally in the issue, flotation, underwriting,
 20 public sale, or distribution at wholesale or retail or through
 21 syndicate participation of stocks, bonds, debentures, notes,
 22 or other securities.

23 For every violation of this section the member bank
 24 involved shall be subject to a penalty not exceeding \$1,000
 25 per day for each day during which such violation continues.

1 Such penalty may be assessed by the Federal Reserve Board,
2 in its discretion, and, when so assessed, may be collected by
3 the Federal reserve bank by suit or otherwise.

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

15 SEC. 19. Paragraph (c) of section 5155 of the Revised
16 Statutes, as amended, is amended to read as follows:

17 "(c) A national banking association may, after Feb-
18 ruary 25, 1927, with the approval of the Federal Reserve
19 Board, establish and operate new branches within the limits
20 of the city, town, or village, or at any point within the
21 State in which said association is situated: if such establish-
22 ment and operation are at the time permitted to State banks
23 by the law of the State in question *Provided*, That, if by
24 reason of the proximity of such an association to a State
25 boundary line, the ordinary and usual business of such asso-

1 ciation is found to extend into an adjacent State, the Fed-
2 eral Reserve Board may permit the establishment of a
3 branch or branches by such association in an adjacent State
4 but not beyond a distance of fifty miles from the place where
5 the parent bank is located. No such association shall estab-
6 lish a branch outside of the city, town, or village in which
7 it is situated unless it has a paid-in and unimpaired capital
8 stock of not less than \$500,000."

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

11 "(d) The aggregate capital of every national banking
12 association and its branches shall at no time be less than the
13 aggregate minimum capital required by law for the estab-
14 lishment of an equal number of national banking associa-
15 tions situated in the various places where such association
16 and its branches are situated."

17 "(d) No branch shall be established after February 25,
18 1927, within the limits of any city, town, or village of
19 which the population by the last decennial census was less
20 than twenty-five thousand. No more than one such branch
21 may be thus established where the population, so deter-
22 mined, of such municipal unit does not exceed fifty thou-
23 sand; and not more than two such branches where the
24 population does not exceed one hundred thousand. In any
25 such municipal unit where the population exceeds one

1 hundred thousand the determination of the number of
2 branches shall be within the discretion of the Comptroller
3 of the Currency.

4 SEC. 20. Sections 1 and 3 of the Act entitled "An
5 Act to provide for the consolidation of national banking
6 associations," approved November 7, 1918, as amended,
7 are amended by striking out the words "county, city, town,
8 or village" wherever they occur in each such section, and
9 inserting in lieu thereof the words "State, county, city,
10 town, or village."

11 SEC. 21. The first two sentences of section 5197 of the
12 Revised Statutes are amended to read as follows:

13 "Any association may take, receive, reserve, and charge
14 on any loan or discount made, or upon any notes, bills of
15 exchange, or other evidences of debt, interest at the rate
16 allowed by the laws of the State, Territory, or District where
17 the bank is located, *or at a rate of 1 per centum in excess*
18 *of the discount rate on ninety-day commercial paper in effect*
19 *at the Federal reserve bank in the Federal reserve district*
20 *where the bank is located, whichever may be the greater,*
21 and no more, except that where by the laws of any State
22 a different rate is limited for banks of issue organized under
23 State laws, the rate so limited shall be allowed for associa-
24 tions organized or existing in any such State under this title.
25 When no rate is fixed by the laws of the State, or Territory,

1 or District, the bank may take, receive, reserve, or charge a
2 rate not exceeding 7 per centum, or 1 per centum in excess
3 of the discount rate on ninety-day commercial paper in
4 effect at the Federal reserve bank in the Federal reserve
5 district where the bank is located, whichever may be the
6 greater, and such interest may be taken in advance, reckon-
7 ing the days for which the note, bill, or other evidence of
8 debt has to run."

9 And the purchase, discount, or sale of a bona fide bill
10 of exchange, payable at another place than the place of such
11 purchase, discount, or sale, at not more than the current
12 rate of exchange for sight drafts in addition to the interest,
13 shall not be considered as taking or receiving a greater rate
14 of interest.

15 SEC. 22. The second sentence of the first paragraph
16 of section 5200 of the Revised Statutes, as amended, is
17 amended by inserting before the period at the end thereof
18 the following: "*and shall include in the case of obligations*
19 *of a corporation all obligations of all subsidiaries thereof*
20 *in which such corporation owns or controls a majority*
21 *interest.*"

22 SEC. 23. Section 5211 of the Revised Statutes, as
23 amended, is amended by adding at the end thereof the fol-
24 lowing new paragraph:

1 "Each national banking association shall obtain from
 2 each of its affiliates other than member banks and furnish
 3 to the Comptroller of the Currency not less than three
 4 reports during each year, in such form as the Comptroller
 5 may prescribe, verified by the oath or affirmation of the
 6 president or such other officer as may be designated by the
 7 board of directors of such affiliate to verify such reports,
 8 disclosing the information hereinafter provided for as of
 9 dates identical with those for which the Comptroller shall
 10 during such year require the reports of the condition of the
 11 association. For the purpose of this section the term
 12 'affiliate' shall include holding company affiliates as well
 13 as other affiliates. Each such report of an affiliate shall
 14 be transmitted to the Comptroller at the same time as the
 15 corresponding report of the association, except that the
 16 Comptroller may, in his discretion, extend such time for
 17 good cause shown. Each such report shall contain such
 18 information as in the judgment of the Comptroller of the
 19 Currency shall be necessary to disclose fully the relations
 20 between such affiliate and such bank and to enable the
 21 Comptroller to inform himself as to the effect of such rela-
 22 tions upon the affairs of such bank. The reports of such
 23 affiliates shall be published by the association under the same
 24 conditions as govern its own condition reports. The Comp-
 25 troller shall also have power to call for additional reports

1 with respect to any such affiliate whenever in his judgment
 2 the same are necessary in order to obtain a full and com-
 3 plete knowledge of the conditions of the association with
 4 which it is affiliated. Such additional reports shall be
 5 transmitted to the Comptroller of the Currency in such form
 6 as he may prescribe. Any such affiliated bank which fails
 7 to obtain and furnish any report required under this section
 8 shall be subject to a penalty of \$100 for each day during
 9 which such failure continues."

10 SEC. 24. (a) The first paragraph of section 5240 of the
 11 Revised Statutes, as amended, is amended by inserting before
 12 the period at the end thereof a colon and the following pro-
 13 viso: "Provided, That in making the examination of any
 14 national bank the examiners shall include such an examina-
 15 tion of the affairs of all its affiliates other than member banks
 16 as shall be necessary to disclose fully the relations between
 17 such bank and such affiliates and the effect of such relations
 18 upon the affairs of such bank; and in the event of the refusal
 19 to give any information required in the course of the exami-
 20 nation of any such affiliate, or in the event of the refusal
 21 to permit such examination, all the rights, privileges, and
 22 franchises of the bank shall be subject to forfeiture in accord-
 23 ance with section 2 of the Federal Reserve Act, as
 24 amended. The Comptroller of the Currency shall have
 25 power, and he is hereby authorized, to publish the report

1 of his examination of any national banking association or
 2 affiliate which shall not within one hundred and twenty
 3 days after notification of the recommendations or suggestions
 4 of the comptroller, based on said examination, have com-
 5 plied with the same to his satisfaction. Ninety days' notice
 6 prior to such publicity shall be given to the bank or affiliate."

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

10 "The examiner making the examination of any affiliate
 11 of a national bank shall have power to make a thorough
 12 examination of all the affairs of the affiliate, and in doing
 13 so he shall have power to administer oaths and to examine
 14 any of the officers, directors, employees, and agents thereof
 15 under oath and to make a report of his findings to the
 16 Comptroller of the Currency. The expense of examinations
 17 of such affiliates may be assessed by the Comptroller of the
 18 Currency upon the affiliates examined in proportion to assets
 19 or resources held by the affiliates upon the dates of examina-
 20 tion of the various affiliates. If any such affiliate shall
 21 refuse to pay such expenses or shall fail to do so within
 22 sixty days after the date of such assessment, then such
 23 expenses may be assessed against the affiliated national bank
 24 and, when so assessed, shall be paid by such national bank:
 25 Provided, however, That, if the affiliation is with two or

1 more national banks, such expenses may be assessed against,
 2 and collected from, any or all of such national banks in
 3 such proportions as the Comptroller of the Currency may
 4 prescribe. If any affiliate of a national bank shall refuse
 5 to permit an examiner to make an examination of the affiliate
 6 or shall refuse to give any information required in the course
 7 of any such examination, the national bank with which it is
 8 affiliated shall be subject to a penalty of not more than \$100
 9 for each day that any such refusal shall continue. Such pen-
 10 alty may be assessed by the Comptroller of the Currency and
 11 collected in the same manner as expenses of examinations."

12 SEC. 25. Whenever, in the opinion of the Comp-
 13 troller of the Currency, any director or officer of a national
 14 bank, or of a bank or trust company doing business in the
 15 District of Columbia, or whenever, in the opinion of a Fed-
 16 eral reserve agent, any director or officer of a State member
 17 bank in his district shall have continued to violate any law
 18 relating to such bank or trust company or shall have con-
 19 tinued unsafe or unsound practices in conducting the business
 20 of such bank or trust company, after having been warned
 21 by the Comptroller of the Currency or the Federal reserve
 22 agent, as the case may be, to discontinue such violations
 23 of law or such unsafe or unsound practices, the Comptroller
 24 of the Currency or the Federal reserve agent, as the case may
 25 be, may certify the facts to the Federal Reserve Board.

1 In any such case the Federal Reserve Board may cause
 2 notice to be served upon such director or officer to appear
 3 before such board to show cause why he should not be
 4 removed from office. A copy of such order shall be sent to
 5 each director of the bank affected, by registered mail. If
 6 after granting the accused director or officer a reasonable
 7 opportunity to be heard, the Federal Reserve Board finds
 8 that he has continued to violate any law relating to such
 9 bank or trust company or has continued unsafe or unsound
 10 practices in conducting the business of such bank or trust
 11 company after having been warned by the Comptroller of
 12 the Currency or the Federal reserve agent to discontinue
 13 such violation of law or such unsafe or unsound practices,
 14 the Federal Reserve Board, in its discretion, may order
 15 that such director or officer be removed from office. A copy
 16 of such order shall be served upon such director or officer.
 17 A copy of such order shall also be served upon the bank of
 18 which he is a director or officer, whereupon such director or
 19 officer shall cease to be a director or officer of such bank:
 20 Provided, That such order and the findings of fact upon
 21 which it is based shall not be made public or disclosed to
 22 anyone except the director or officer involved and the direc-
 23 tors of the bank involved, otherwise than in connection with
 24 proceedings for a violation of this section. Any such director
 25 or officer removed from office as herein provided who there-

1 after participates in any manner in the management of such
 2 bank shall be fined not more than \$5,000 or imprisoned for
 3 not more than five years, or both, in the discretion of the
 4 court.

5 SEC. 26. The right to alter, amend, or repeal this Act
 6 is hereby expressly reserved. If any provisions of this Act,
 7 or the application thereof to any person or circumstances,
 8 is held invalid, the remainder of the Act, and the application
 9 of such provision to other persons or circumstances, shall
 10 not be affected thereby.

72D CONGRESS }
2D SESSION }

S. 4412

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

APRIL 18, 1932

Read twice and referred to the Committee on Banking and Currency

APRIL 18, 1932

Reported without amendment

JANUARY 10 (calendar day, JANUARY 12), 1933

Ordered reprinted

*Print showing difference between
bill as reported by committee and bill
as passed by Senate.* #

Calendar No. 604

72^D CONGRESS
1ST SESSION

S. 4412

IN THE SENATE OF THE UNITED STATES

APRIL 18, 1932

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

APRIL 18, 1932

Reported by Mr. GLASS, without amendment

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.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That the short title of this Act shall be the "Banking Act
4 of 1932."

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

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

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

8 (1) Of which a member bank, directly or indirectly,
9 owns or controls either a majority of the voting shares or
10 more than 50 per centum of the number of shares voted for
11 the election of its directors, trustees, or other persons exer-
12 cising similar functions at the preceding election, or con-
13 trols in any manner the election of a majority of its directors,
14 trustees, or other persons exercising similar functions; or

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

23 (3) Of which either a majority of the members of its
24 executive committee or a majority of its directors, trustees,

1 or other persons exercising similar functions are directors
2 of a ^{any one} member bank.

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

6 (1) Which owns or controls, directly or indirectly,
7 either a majority of the shares of capital stock of a member
8 bank or more than 50 per centum of the number of shares
9 voted for the election of directors of ^{any one} such bank at the
10 preceding election, or controls in any manner the election
11 of a majority of the directors of ^{any one} such bank; or

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

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

18 "Said board of directors shall administer the affairs
19 of said bank fairly and impartially and without discrimina-
20 tion in favor of or against any member bank or banks and
21 may, subject to the provisions of law and the orders of
22 the Federal Reserve Board, extend to each member bank
23 such discounts, advancements, and accommodations as may
24 be safely and reasonably made with due regard for the

1 claims and demands of other member banks, the mainte-
 2 nance of sound credit conditions, and the accommodation of
 3 commerce, industry, and agriculture. The Federal Reserve
 4 Board may prescribe regulations further defining within the
 5 limitations of this Act the conditions under which discounts,
 6 advancements, and accommodations may be extended to
 7 member banks. Each Federal reserve bank shall keep
 8 itself informed of the general character and amount of the
 9 loans and investments of its member banks with a view to
 10 ascertaining whether undue use is being made of bank credit
 11 for the speculative carrying of or trading in securities,
 12 real estate, or commodities, or for any other purpose incon-
 13 sistent with the maintenance of sound credit conditions; and,
 14 in determining whether to grant or refuse advances, redis-
 15 counts or other credit accommodations, the Federal reserve
 16 bank shall give consideration to such information. The
 17 chairman of the Federal reserve bank shall report to the
 18 Federal Reserve Board any such undue use of bank credit
 19 by any member bank, together with his recommendation.
 20 Whenever, in the judgment of the Federal Reserve Board,
 21 any member bank is making such undue use of bank credit,
 22 the board may, in its discretion, after reasonable notice and
 23 an opportunity for a hearing, suspend such bank from the use
 24 of the credit facilities of the Federal reserve system and may

1 terminate such suspension or may renew it from time to
 2 time."

3 (b) The paragraph of section 4 of the Federal Reserve
 4 Act, as amended, which commences with the words "The
 5 Federal Reserve Board shall classify" is amended by insert-
 6 ing before the period at the end thereof a colon and the
 7 following: "*Provided*, That whenever any two or more
 8 member banks within the same Federal reserve district are
 9 affiliated with the same holding company affiliate, participa-
 10 tion by such member banks in any such nomination or
 11 election shall be confined to one of such banks, which may
 12 be designated for the purpose by such holding company
 13 affiliate."

14 SEC. 4. The first paragraph of section 7 of the Federal
 15 Reserve Act, as amended, is amended, effective July 1,
 16 1932, to read as follows:

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

24 SEC. 5. (a) The second paragraph of section 9 of
 25 the Federal Reserve Act, as amended, is amended by adding

1 at the end thereof the following: " *Provided, however,* That
 2 nothing herein contained shall prevent any State member
 3 bank from establishing and operating branches in the United
 4 States or any dependency or insular possession thereof or in
 5 any foreign country, on the same terms and conditions and
 6 subject to the same limitations and restrictions as are appli-
 7 cable to the establishment of branches by national banks."

8 (b) Section 9 of the Federal Reserve Act, as amended,
 9 is further amended by adding at the end thereof the follow-
 10 ing new paragraphs:

11 " Each bank admitted to membership under this section
 12 shall obtain from each of its affiliates other than member
 13 banks and furnish to the Federal reserve bank of its district
 14 and to the Federal Reserve Board not less than three reports
 15 during each year. Such reports shall be in such form as
 16 the Federal Reserve Board may prescribe, shall be verified
 17 by the oath or affirmation of the president or such other
 18 officer as may be designated by the board of directors of such
 19 affiliate to verify such reports, and shall disclose the infor-
 20 mation hereinafter provided for as of dates identical
 21 with those fixed by the Federal Reserve Board for
 22 reports of the condition of the affiliated member bank.
 23 Each such report of an affiliate shall be transmitted
 24 as herein provided at the same time as the corresponding
 25 report of the affiliated member bank, except that the Fed-

1 eral Reserve Board may, in its discretion, extend such time
 2 for good cause shown. Each such report shall contain such
 3 information as in the judgment of the Federal Reserve
 4 Board shall be necessary to disclose fully the relations
 5 between such affiliate and such bank and to enable the board
 6 to inform itself as to the effect of such relations upon the
 7 affairs of such bank. The reports of such affiliates shall
 8 be published by the bank under the same conditions as
 9 govern its own condition reports.

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

19 "Any such affiliated member bank which fails to
 20 obtain from any of its affiliates and furnish any report
 21 provided for by the two preceding paragraphs of this section
 22 shall be subject to a penalty of \$100 for each day during
 23 which such failure continues, which, by direction of the
 24 Federal Reserve Board, may be collected, by suit or other-
 25 wise, by the Federal reserve bank of the district in which

1 such member bank is located. For the purposes of this
2 paragraph and the two preceding paragraphs of this section,
3 the term 'affiliate' shall include holding company affiliates
4 as well as other affiliates.

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

11 "After ^{five} three years from the date of the enactment
12 of the Banking Act of 1932, no certificate representing the
13 stock of any State member bank shall represent the stock
14 of any other corporation, except a member bank, nor shall
15 the ownership, sale, or transfer of any certificate represent-

16 ing the stock of any such bank be conditioned in any manner
"Each State member bank affiliated with a holding company af-
filiate shall obtain from such holding company affiliate, with-
in such time as the Federal Reserve Board shall prescribe, an agree-
ment that such holding company affiliate shall be subject to the
same conditions as to its stock 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 agree-
ment 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 pre-
scribed, 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."

23 amended. Whenever the Federal Reserve Board shall have
24 revoked the voting permit of any such holding company
25 affiliate, the Federal Reserve Board may, in its discretion,

1 require any or all State member banks affiliated with such
2 holding company affiliate to surrender their stock in the
3 Federal reserve bank and to forfeit all rights and privileges
4 of membership in the Federal reserve system as provided in
5 this section.

6 "In connection with examinations of State member
7 banks, examiners selected or approved by the Federal
8 Reserve Board shall make such examinations of the affairs
9 of all affiliates of such banks as shall be necessary to disclose
10 fully the relations between such banks and their affiliates
11 and the effect of such relations upon the affairs of such banks.

12 The expense of examination of affiliates of any State member
13 bank may, in the discretion of the Federal Reserve Board,
14 be assessed against such bank and, when so assessed, shall
15 be paid by such bank. In the event of the refusal to give
16 any information requested in the course of the examination
17 of any such affiliate, or in the event of the refusal to permit
18 such examination, or in the event of the refusal to pay
19 any expense so assessed, the Federal Reserve Board may,
20 in its discretion, require any or all State member banks
21 affiliated with such affiliate to surrender their stock in the
22 Federal reserve bank and to forfeit all rights and privileges
23 of membership in the Federal reserve system, as provided
24 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

1 Board shall within fifteen days after notice of appointment
2 make and subscribe to the oath of office."

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

5 "The principal offices of the board shall be in the Dis-
6 trict of Columbia. At meetings of the board the governor
7 shall preside as chairman, and, in his absence, the vice gov-
8 ernor shall preside. In the absence of both the governor
9 and the vice governor, the board shall elect a member to act
10 as chairman pro tempore. No member of the Federal Re-
11 serve Board shall be an officer or director of any bank, bank-
12 ing institution, trust company, or Federal reserve bank or
13 hold stock in any bank, banking institution, or trust com-
14 pany; and before entering upon his duties as a member of
15 the Federal Reserve Board he shall certify under oath that
16 he has complied with this requirement and such certification
17 shall be filed with the secretary of the board. Whenever a
18 vacancy shall occur, other than by expiration of term, among
19 the six members of the Federal Reserve Board appointed by
20 the President as above provided, a successor shall be
21 appointed by the President, by and with the advice and
22 consent of the Senate, to fill such vacancy, and when
23 appointed he shall hold office for the unexpired term of
24 his predecessor."

1 SEC. 7. The Federal Reserve Act, as amended, is
2 amended by inserting between sections 12 and 13 thereof
3 the following new sections:

4 "SEC. 12A. (a) There is hereby created a Federal
5 Open Market Committee (hereinafter referred to as the
6 committee), which shall consist of as many members as
7 there are Federal reserve districts. Each Federal reserve
8 bank by its board of directors shall annually select one
9 member of said committee. The meetings of said com-
10 mittee shall be held at Washington, District of Columbia,
11 at least four times each year, upon the call of the governor
12 of the Federal Reserve Board or at the request of any
13 three members of the committee, and, in the discretion of
14 the board, may be attended by the members of the board.

15 "(b) No Federal reserve bank shall engage in open
16 market operations under section 14 of this Act except in
17 accordance with resolutions adopted by the committee and
18 approved by the Federal Reserve Board as hereinafter pro-
19 vided. The committee shall consider, adopt, and transmit
20 to the several Federal reserve banks resolutions relating to
21 the open market transactions of such banks and the relations
22 of the Federal reserve system with foreign central or other
23 foreign banks. Every such resolution shall be reported to
24 the Federal Reserve Board and be subject to its approval.

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

7 “(d) If any Federal reserve bank shall decide not to
8 participate in open market operations recommended and ap-
9 proved as provided in paragraph (b) hereof, it shall file
10 with the chairman of the committee within thirty days a
11 notice of its decision, and transmit a copy thereof to the
12 Federal Reserve Board.

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

22 “(b) The management of the corporation shall be
23 vested in a board of directors consisting of five members,
24 one of whom shall be the Comptroller of the Currency, one
25 a member of the Federal Reserve Board designated by the

1 board for the purpose, and three selected annually by the
2 governors of the twelve Federal reserve banks under such
3 procedure as may be prescribed by the Federal Reserve
4 Board. No member of such board of directors shall receive
5 any additional compensation for his services as such member.

6 “(c) There is hereby authorized to be appropriated,
7 out of any money in the Treasury not otherwise appropriated, the
8 sum of \$125,000,000, which shall be available for payment by the
9 Secretary of the Treasury for capital stock of the corporation
10 in an equal amount, which shall be subscribed for by him on be-
11 half of the sum of \$125,000,000 which shall be made
12 be subject to call in whole or in part by the board of directors
13 of the corporation. Such stock shall be in addition to the
14 amount of capital stock required to be subscribed for by
15 Federal reserve banks as hereinafter provided
16 and the United States shall be entitled to the payment of divid-
17 ends on such stock in addition to the amount of capital stock entitled
18 to such payment on the Class A stock of the corporation held by
19 them. Receipts for payments by the United States for an ac-
20 count of such stock shall be issued by the corporation to the
21 Secretary of the Treasury and shall be evidence of the stock
22 ownership of the United States.”

23 “(d) The capital stock of the corporation shall be
24 divided into shares of \$100 each. Certificates of stock of
25 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

1 reserve bank shall subscribe to shares of class B stock in
2 the corporation to an amount equal to one-fourth of the
3 surplus of such bank on July 1, 1932, and its subscriptions
4 shall be accompanied by a certified check payable to the
5 corporation in an amount equal to one-half of such subscrip-
6 tion. The remainder of such subscription shall be subject
7 to call from time to time by the board of directors upon
8 ninety days' notice.

9 “(e) Every member bank shall subscribe to the class
10 A capital stock of the corporation in an amount equal to
11 one-fourth of 1 per centum of its total net outstanding time
12 and demand deposits on July 1, 1932, as computed in
13 accordance with regulations of the Federal Reserve Board
14 governing the computation of reserves. One-half of such
15 subscription shall be paid in full within ninety days after
16 receipt of notice from the chairman of the board of directors
17 of the corporation, and the remainder of such subscription
18 shall be subject to call from time to time by the board of
19 directors of the corporation.

20 “(f) The amount of the outstanding class A stock of
21 the corporation held by member banks shall be annually
22 adjusted as hereinafter provided as of the last preceding
23 call date as member banks increase their time and demand
24 deposits or as additional banks become members, and such
25 stock may be decreased in amount as member banks reduce

1 their time and demand deposits or cease to be members.
2 Shares of the capital stock of the corporation owned by
3 member banks shall not be transferred or hypothecated.
4 When a member bank increases its time and demand
5 deposits, it shall, at the beginning of each calendar year,
6 subscribe for an additional amount of capital stock of the
7 corporation equal to one-fourth of 1 per centum of such
8 increase in deposits. One-half of the amount of such addi-
9 tional stock shall be paid for at the time of the subscription
10 therefor and the balance shall be subject to call by the board
11 of directors of the corporation. A bank admitted to mem-
12 bership in the Federal reserve system at any time after the
13 organization of the corporation shall be required to sub-
14 scribe for an amount of class A capital stock equal to
15 one-fourth of 1 per centum of the time and demand
16 deposits of the applicant bank as of the date of such ad-
17 mission, paying therefor its par value plus one-half of 1
18 per centum a month from the period of the last dividend on
19 the class A stock of the corporation. When a member bank
20 reduces its time and demand deposits it shall surrender, not
21 later than the 1st day of January thereafter, a proportionate
22 amount of its holdings in the capital stock of the corporation,
23 and when a member bank voluntarily liquidates it shall sur-
24 render all its holdings of the capital stock of the corporation

1 and be released from its stock subscription not previously
 2 called. The shares so surrendered shall be canceled and
 3 the member bank shall receive in payment therefor, under
 4 regulations to be prescribed by the Federal Reserve Board,
 5 a sum equal to its cash-paid subscriptions on the shares
 6 surrendered and its proportionate share of dividends not to
 7 exceed one-half of 1 per centum a month, from the period
 8 of the last dividend on such stock, less any liability of such
 9 member bank to the corporation.

10 (g) If any member bank shall be declared insolvent,
 11 the stock held by it in the corporation shall be canceled,
 12 without impairment of the liability of such bank, and all
 13 cash-paid subscriptions on such stock, with its proportionate
 14 share of dividends not to exceed one-half of 1 per centum
 15 per month from the period of last dividend on such stock
 16 shall be first applied to all debts of the insolvent bank or
 17 the receiver thereof to the corporation, and the balance, if
 18 any, shall be paid to the receiver of the insolvent bank.

19 (h) Upon the date of enactment of the Banking Act
 20 of ¹⁹³³ 1932, the corporation shall become a body corporate and
 21 as such shall have power—

22 "First. To adopt and use a corporate seal.

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

25 "Third. To make contracts.

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

3 "Fifth. To appoint by its board of directors such offi-
 4 cers and employees as are not otherwise provided for in this
 5 section, to define their duties, fix their compensation,
 6 require bonds of them and fix the penalty thereof, and to
 7 dismiss at pleasure such officers or employees. Nothing in
 8 this or any other Act shall be construed to prevent the
 9 appointment and compensation as an officer or employee
 10 of the corporation of any officer or employee of the United
 11 States in any board, commission, independent establishment,
 12 or executive department thereof.

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

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

21 (i) The board of directors shall administer the
 22 affairs of the corporation fairly and impartially and without
 23 discrimination in favor of or against any member bank or
 24 banks and may, subject to the provisions of law, extend to
 25 each national bank which is closed by action of the Comp-

1 troller of the Currency, or by vote of its directors, and to
 2 each State member bank which is closed by action of the
 3 appropriate State authorities, or by vote of its directors, such
 4 accommodations as may be safely and reasonably made
 5 with due regard for the claims and demands of other mem-
 6 ber banks. The board of directors of the corporation shall
 7 determine and prescribe the manner in which its obligations
 8 shall be incurred and its expenses allowed and paid. The
 9 corporation shall be entitled to the free use of the United
 10 States mails in the same manner as the executive depart-
 11 ments of the Government. The corporation with the con-
 12 sent of any Federal reserve bank or of any board, commis-
 13 sion, independent establishment, or executive department
 14 of the Government, including any field service thereof, may
 15 avail itself of the use of information, services, and facilities
 16 thereof in carrying out the provisions of this section.

17 “(j) Whenever any member bank shall have been
 18 closed by action of its board of directors, the Comptroller of
 19 the Currency, or the appropriate State authority, as the case
 20 may be, the receiver may tender the assets of such bank to
 21 the corporation which may purchase the same, or make a loan
 22 on the security thereof, in whole or in part, as in the deter-
 23 mination of its board of directors the prompt and economical
 24 liquidation of the assets of such bank may require, on the
 25 basis of such valuations as may be agreed upon by a valua-

1 tion committee of three members consisting of the receiver
 2 of such bank, a member to be named by the board of direc-
 3 tors of such bank, and a person to be chosen by the receiver
 4 and the member named by such board of directors. It
 5 shall be the duty of the corporation to proceed to
 6 realize as rapidly as possible, having due regard to the
 7 condition of credit in the district in which such bank
 8 is located, upon any assets so purchased, and if the net
 9 amount realized from the sale or other disposition of such
 10 assets exceeds the sum paid therefor, the corporation shall
 11 make an additional payment to the receiver of the bank
 12 equal to the amount of such excess, if any, after deducting a
 13 liquidation fee of 8 per centum of the sum thus realized; but
 14 any income derived by the corporation from such assets shall
 15 be the property of the corporation. Money of the corpora-
 16 tion not otherwise employed shall be invested in securities
 17 of the Government of the United States, except that for
 18 temporary periods, in the discretion of the board of directors,
 19 funds of the corporation may be deposited subject to check
 20 in any Federal reserve bank or with the Treasurer of the
 21 United States. When designated for that purpose by the
 22 Secretary of the Treasury, the corporation shall be a deposi-
 23 tary of public moneys, except receipts from customs, under
 24 such regulations as may be prescribed by the said Secretary,
 25 and may also be employed as a financial agent of the Govern-

1 ment. It shall perform all such reasonable duties as deposi-
2 tary of public moneys and financial agent of the Government
3 as may be required of it.

4 "(k) The corporation may, in its discretion, purchase
5 the assets of banks in the hands of receivers on the date of
6 its organization, but on the same conditions and terms as are
7 applicable in the case of assets of banks which may fail or
8 be closed after such date. Nothing herein contained shall
9 be construed to prevent the corporation from making loans
10 to national banks closed by action of the Comptroller of the
11 Currency, or by vote of their directors, or to State member
12 banks closed by action of the appropriate State authorities,
13 or by vote of their directors, or from entering into negotia-
14 tions to secure the reopening of such banks.

15 "(1) Receivers or liquidators of member banks which
16 are now or may hereafter become insolvent or suspended
17 shall be entitled to offer the assets of such banks for sale to
18 the corporation or as security for loans from the corpora-
19 tion, upon receiving permission from the appropriate State
20 authority in accordance with express provision of State law
21 in the case of State member banks, or from the Comptroller
22 of the Currency in the case of national banks. The pro-
23 ceeds of every such sale or loan shall be utilized for the same
24 purposes and in the same manner as other funds realized
25 from the liquidation of the assets of such banks. The Comp-

1 troller of the Currency may, in his discretion, pay dividends
2 on proved claims at any time after the expiration of the
3 period of advertisement made pursuant to section 5235 of
4 the Revised Statutes, and no liability shall attach to the
5 Comptroller of the Currency or to the receiver of any
6 national bank by reason of any such payment for failure to
7 pay dividends to a claimant whose claim is not proved at
8 the time of any such payment.

9 "(m) The corporation is authorized and empowered
10 to issue and to have outstanding at any one time in an
11 amount aggregating not more than twice the ^{amount} sum of its
12 capital, and the amount authorized to be appropriated pur-
13 suant to paragraph (c) of this section, its notes, debentures,
14 bonds, or other such obligations, to be redeemable at the
15 option of the corporation before maturity in such manner as
16 may be stipulated in such obligations, and to bear such rate
17 or rates of interest, and to mature at such time or times as
18 may be determined by the corporation: *Provided*, That the
19 corporation may sell on a discount basis short-term obliga-
20 tions payable at maturity without interest. The notes,
21 debentures, bonds, and other such obligations of the corpora-
22 tion may be secured by assets of the corporation in such
23 manner as shall be prescribed by its board of directors. Such
24 obligations may be offered for sale at such price or prices
25 as the corporation may determine.

1 “(n) All notes, debentures, bonds, or other such obliga-
 2 tions issued by the corporation shall be exempt, both as to
 3 principal and interest, from all taxation (except estate and
 4 inheritance taxes) now or hereafter imposed by the United
 5 States, by any Territory, dependency, or possession thereof,
 6 or by any State, county, municipality, or local taxing author-
 7 ity. The corporation, including its franchise, its capital,
 8 reserves, and surplus, and its income, shall be exempt from
 9 all taxation now or hereafter imposed by the United States,
 10 by any Territory, dependency, or possession thereof, or by
 11 any State, county, municipality, or local taxing authority,
 12 except that any real property of the corporation shall be
 13 subject to State, Territorial, county, municipal, or local tax-
 14 ation to the same extent according to its value as other real
 15 property is taxed.

16 “(o) In order that the corporation may be supplied
 17 with such forms of notes, debentures, bonds, or other such
 18 obligations as it may need for issuance under this Act, the
 19 Secretary of the Treasury is authorized to prepare such
 20 forms as shall be suitable and approved by the corporation,
 21 to be held in the Treasury subject to delivery, upon order
 22 of the corporation. The engraved plates, dies, bed pieces,
 23 and other material executed in connection therewith shall
 24 remain in the custody of the Secretary of the Treasury.
 25 The corporation shall reimburse the Secretary of the Treas-

1 ury for any expenses incurred in the preparation, custody,
 2 and delivery of such notes, debentures, bonds, or other
 3 such obligations.

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

7 “(q) Whoever, for the purpose of obtaining any loan
 8 from the corporation, or any extension or renewal thereof,
 9 or the acceptance, release, or substitution of security there-
 10 for, or for the purpose of inducing the corporation to pur-
 11 chase any assets, or for the purpose of influencing in any
 12 way the action of the corporation under this section, makes
 13 any statement, knowing it to be false, or wilfully overvalues
 14 any security, shall be punished by a fine of not more than
 15 \$5,000 or by imprisonment for not more than two years, or
 16 both.

17 “(r) Whoever (1) falsely makes, forges, or counter-
 18 feits any obligation or coupon, in imitation of or purporting
 19 to be an obligation or coupon issued by the corporation, or
 20 (2) passes, utters, or publishes, or attempts to pass, utter,
 21 or publish, any false, forged, or counterfeited obligation or
 22 coupon purporting to have been issued by the corporation,
 23 knowing the same to be false, forged, or counterfeited, or
 24 (3) falsely alters any obligation or coupon issued or pur-
 25 porting to have been issued by the corporation, or (4)

1 passes, utters, or publishes, or attempts to pass, utter, or
 2 publish, as true, any falsely altered or spurious obligation or
 3 coupon, issued or purporting to have been issued by the cor-
 4 poration, knowing the same to be falsely altered or spurious,
 5 shall be punished by a fine of not more than \$10,000 or by
 6 imprisonment for not more than five years, or both.

7 “(s) Whoever, being connected in any capacity with
 8 the corporation, (1) embezzles, abstracts, purloins, or will-
 9 fully misapplies any moneys, funds, securities, or other
 10 things of value, whether belonging to it or pledged, or
 11 otherwise intrusted to it, or (2) with intent to defraud the
 12 corporation or any other body, politic or corporate, or any
 13 individual, or to deceive any officer, auditor, or examiner
 14 of the corporation, makes any false entry in any book,
 15 report, or statement of or to the corporation, or without
 16 being duly authorized draws any order or issues, puts forth
 17 or assigns any note, debenture, bond, or other such obliga-
 18 tion, or draft, bill of exchange, mortgage, judgment, or
 19 decree thereof, shall be punished by a fine of not more than
 20 \$10,000 or by imprisonment for not more than five years,
 21 or both.

22 “(t) No individual, association, partnership, or cor-
 23 poration shall use the words ‘Federal Liquidating Corpora-
 24 tion,’ or a combination of these three words, as the name
 25 or a part thereof under which he or it shall do business.

1 Every individual, partnership, association, or corporation
 2 violating this subdivision shall be punished by a fine of not
 3 exceeding \$1,000 or by imprisonment not exceeding one
 4 year, or both.

5 “(u) The provisions of sections 112, 113, 114, 115,
 6 116, and 117 of the Criminal Code of the United States
 7 (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive), in
 8 so far as applicable, are extended to apply to contracts or
 9 agreements with the corporation under this section, which for
 10 the purposes hereof shall be held to include loans, advances,
 11 extensions, and renewals thereof, and acceptances, releases,
 12 and substitutions of security therefor, purchases or sales of
 13 assets, and all contracts and agreements pertaining to the
 14 same.

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

20 SEC. 8. The seventh paragraph of section 13 of the
 21 Federal Reserve Act, as amended, is amended to read as
 22 follows:

23 “Any Federal reserve bank may make advances to
 24 its member banks on their promissory notes for a period

1 not exceeding fifteen days at rates to be established by
 2 such Federal reserve bank, subject to the review and
 3 determination of the Federal Reserve Board, provided such
 4 promissory notes are secured by such notes, drafts, bills of
 5 exchange, or bankers' acceptances as are eligible for redis-
 6 count or for purchase by Federal reserve banks under the
 7 provisions of this Act, or by the deposit or pledge of bonds
 8 or notes of the United States. If any member bank to
 9 which any such advance has been made shall, during the
 10 life or continuance of such advance, and despite an official
 11 warning of the reserve bank of the district or of the Federal
 12 Reserve Board to the contrary, increase its outstanding
 13 loans secured by collateral in the form of stocks, bonds,
 14 debentures, or other such obligations, or loans made to mem-
 15 bers of any organized stock exchange, investment house,
 16 or dealer in securities, upon any obligation, note, or bill,
 17 secured or unsecured, for the purpose of purchasing and/or
 18 carrying stocks, bonds, or other investment securities (ex-
 19 cept obligations of the United States) such advance shall be
 20 deemed immediately due and payable, and such member
 21 bank shall be ineligible as a borrower at the reserve
 22 bank of the district under the provisions of this para-
 23 graph for such period as the Federal Reserve Board shall
 24 determine."

1 SEC. 9. Section 14 of the Federal Reserve Act, as
 2 amended, is amended by adding at the end thereof the
 3 following new paragraph:
 4 "(g) The Federal Reserve Board shall exercise special
 5 supervision over all relationships and transactions of any
 6 kind entered into by any Federal reserve bank with any
 7 foreign bank or banker, or with any group of foreign banks
 8 or bankers, and all such relationships and transactions shall
 9 be subject to such regulations, conditions, and limitations as
 10 the board may prescribe. No officer or other representa-
 11 tive of any Federal reserve bank shall conduct negotiations
 12 of any kind with the officers or representatives of any
 13 foreign bank or banker without first obtaining the permis-
 14 sion of the Federal Reserve Board. The Federal Reserve
 15 Board shall have the right, in its discretion, to be represented
 16 in any conference or negotiations by such representative or
 17 representatives as the board may designate. A full report
 18 of all conferences or negotiations, and all understandings or
 19 agreements arrived at or transactions agreed upon, and all
 20 other material facts appertaining to such conferences or
 21 negotiations, shall be filed with the Federal Reserve Board
 22 in writing by a duly authorized officer of each Federal reserve
 23 bank which shall have participated in such conferences or
 24 negotiations."

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

4 "No member bank shall act as the medium or agent of
5 any nonbanking corporation, partnership, association, busi-
6 ness trust, or individual in making loans on the security of
7 stocks, bonds, and other investment securities to brokers or
8 dealers in stocks, bonds, and other investment securities.

9 Every violation of this provision by any member bank shall
10 be punishable by a fine of not more than \$100 per day during
11 the continuance of such violation; and such fine may be col-
12 lected, by suit or otherwise, by the Federal reserve bank
13 of the district in which such member bank is located."

14 SEC. 11. The Federal Reserve Act, as amended, is

15 "Sec. 11. Section 22 of the Federal Reserve Act, as amended,
16 further amended by inserting between sections 23 and 24 amended
sections (g) and (h) reading as follows:
the following new section:

(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 execu-
tive officers. If any executive officer of any member bank
borrow from or purchase agreements from any of its affiliates, 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 mis-
demeanor 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.

25 the case of any such affiliate, the aggregate amount of such

(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 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."

1 loans, extensions of credit, repurchase agreements, invest-
2 ments, and advances against such collateral security will
3 exceed 10 per centum of the capital stock and surplus of
4 such member bank, or if, in the case of all such affiliates,
5 the aggregate amount of such loans, extensions of credits,
6 repurchase agreements, investments, and advances against
7 such collateral security will exceed 20 per centum of the
8 capital stock and surplus of such member bank.

9 "Within the foregoing limitations, each loan or exten-
10 sion of credit of any kind or character to an affiliate shall be
11 secured by collateral in the form of stocks, bonds, debentures,
12 or other such obligations having a market value at the time
13 of making the loan or extension of credit of at least 20 per
14 centum more than the amount of the loan or extension of
15 credit, or of at least 10 per centum more than the amount of
16 the loan or extension of credit if it is secured by obligations
17 of any State, or of any political subdivision or agency
18 thereof: *Provided*, That the provisions of this paragraph
19 shall not apply to loans or extensions of credit secured by
20 obligations of the United States Government, the Federal
21 intermediate credit banks, or the Federal land banks, or by
22 such notes, drafts, bills of exchange, or bankers' acceptances
23 as are eligible for rediscount or for purchase by Federal
24 reserve banks. A loan or extension of credit to a director,
25 officer, clerk, or other employee or any representative of

1 any such affiliate shall be deemed a loan to the affiliate to
2 the extent that the proceeds of such loan are used for the
3 benefit of, or transferred to, the affiliate.

4 "For the purposes of this section the term 'affiliate'
5 shall include holding company affiliates as well as other
6 affiliates, and the provisions of this section shall not apply
7 to any affiliate (1) engaged solely in holding the bank
8 premises of the member bank with which it is affiliated,
9 (2) engaged solely in conducting a safe-deposit business or
10 the business of an agricultural credit corporation or livestock
11 loan company, (3) in the capital stock of which a national
12 banking association is authorized to invest pursuant to
13 section 25 of the Federal Reserve Act, as amended,
14 or (4) organized under section 25 (a) of the Federal
15 Reserve Act, as amended; but as to any such affiliate, mem-
16 ber banks shall continue to be subject to other provisions of
17 law applicable to loans by such banks and investments by
18 such banks in stocks, bonds, debentures, or other such
19 obligations."

20 ¹³ SEC. 12. The Federal Reserve Act, as amended, is
21 amended by inserting between section 24 and section 25
22 thereof the following new section:

23 "SEC. 24A. Hereafter no national bank, without the
24 approval of the Comptroller of the Currency, and no State
25 member bank, without the approval of the Federal Reserve

1 Board, shall (1) invest in bank premises, or in the stock,
2 bonds, debentures, or other such obligations of any corpora-
3 tion holding the premises of such bank, or (2) make loans
4 to or upon the security of the stock of any such corporation,
5 if the aggregate of all such investments and loans will
6 exceed the amount of the capital stock of such bank.”

7 SEC. ¹⁴13. The Federal Reserve Act, as amended, is
8 further amended by inserting after section 25 (a) thereof
9 the following new section:

10 “SEC. 25. (b) Notwithstanding any other provision
11 of law all suits of a civil nature at common law or in equity
12 to which any corporation organized under the laws of the
13 United States shall be a party, arising out of transactions
14 involving international or foreign banking, or banking in
15 a dependency or insular possession of the United States,
16 or out of other international or foreign financial operations,
17 either directly or through the agency, ownership, or control
18 of branches or local institutions in dependencies or insular
19 possessions of the United States or in foreign countries,
20 shall be deemed to arise under the laws of the United States,
21 and the district courts of the United States shall have
22 original jurisdiction of all such suits; and any defendant in
23 any such suit may, at any time before the trial thereof,
24 remove such suits from a State court into the district court

1 of the United States for the proper district by following the
2 procedure for the removal of causes otherwise provided by
3 law."

4 SEC. ¹⁵14. Paragraph "Seventh" of section 5136 of
5 the Revised Statutes, as amended, is amended to read as
6 follows:

7 "Seventh. To exercise by its board of directors or
8 duly authorized officers or agents, subject to law, all such
9 incidental powers as shall be necessary to carry on the busi-
10 ness of banking; by discounting and negotiating promissory
11 notes, drafts, bills of exchange, and other evidences of debt;
12 by receiving deposits; by buying and selling exchange, coin,
13 and bullion; by loaning money on personal security; and
14 by obtaining, issuing, and circulating notes according to
15 the provisions of this title; and generally by engaging in all
16 forms of banking business and undertaking all types of
17 banking transactions that may, by the laws of the State
18 in which such bank is situated, be permitted to banks of
19 deposit and discount organized and incorporated under the
20 laws of such State, except in so far as they may be for-
21 bidden by the provisions of any Act of Congress. The busi-
22 ness of dealing in investment securities by the association shall
23 be limited to purchasing and selling such securities without
24 recourse, solely upon the order, and for the account of,
25 customers, and in no case for its own account, and the asso-

1 ciation shall not underwrite any issue of securities: *Pro-*
2 *vided*, That the association may purchase for its own
3 account investment securities under such limitations and
4 restrictions as the Comptroller of the Currency may by
5 regulation prescribe, but in no event (1) shall the total
6 amount of any issue of investment securities of any one
7 obligor or maker ~~hereafter~~ purchased and held by the asso-
8 ciation for its own account exceed at any time 10 per
9 centum of the total amount of such issue outstanding, but
10 this limitation shall not apply to any such issue the total
11 amount of which does not exceed \$100,000 and does not
12 exceed 50 per centum of the capital of the association, nor
13 (2) shall the total amount of the investment securities of
14 any one obligor or maker ~~hereafter~~ purchased and held by
15 the association for its own account exceed at any time 15
16 per centum of the amount of the capital stock of the associa-
17 tion actually paid in and unimpaired and 25 per centum of its
18 unimpaired surplus fund. As used in this section the term
19 'investment securities' shall mean marketable obligations
20 evidencing indebtedness of any person, copartnership, asso-
21 ciation, or corporation in the form of bonds, notes and/or
22 debentures commonly known as investment securities under
23 such further definition of the term 'investment securities' as
24 may by regulation be prescribed by the Comptroller of the

After this action is amended. Fisher 1/1/1915

1 Currency. Except as hereinafter provided or otherwise
 2 permitted by law, nothing herein contained shall authorize
 3 the purchase ~~or holding~~ by the association of any shares of
 4 stock of any corporation. The limitations herein contained
 5 as to investment securities shall not apply to obligations
 6 of the United States, or ~~general~~ obligations of any State or of
 7 any political subdivision thereof, or obligations issued under
 8 authority of the Federal Farm Loan Act, as amended: *Pro-*
 9 *vided*, That in carrying on the business commonly known as
 10 the safe-deposit business the association shall not invest in
 11 the capital stock of a corporation organized under the law of
 12 any State to conduct a safe-deposit business in an amount in
 13 excess of 15 per centum of the capital stock of the associa-
 14 tion actually paid in and unimpaired and 15 per centum of
 15 its unimpaired surplus."

16 SEC. ¹⁵ 15. (a) Section 5138 of the Revised Statutes, as
 17 amended, is amended to read as follows:

18 "SEC. 5138. After this section as amended takes effect,
 19 no national banking association shall be organized with a
 20 less capital than \$100,000, except that such associations
 21 with a capital of not less than \$50,000 may be organized
 22 in any place the population of which does not exceed
 23 six thousand inhabitants. No such association shall be
 24 organized in a city the population of which exceeds
 25 fifty thousand persons with a capital of less than \$200,000,

1 except that in the outlying districts of such a city where the
 2 State laws permit the organization of State banks with a
 3 capital of \$100,000 or less, national banking associations
 4 now organized or hereafter organized may, with the approval
 5 of the Comptroller of the Currency, have a capital of not
 6 less than \$100,000."

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

9 "No applying bank shall be admitted to membership
 10 in a Federal reserve bank unless it possesses a paid-up unim-
 11 paired capital sufficient to entitle it to become a national
 12 banking association in the place where it is situated under
 13 the provisions of the National Bank Act, as amended."

14 SEC. ¹⁶ 16. Section 5139 of the Revised Statutes, as
 15 amended, is amended by adding at the end thereof the fol-
 16 lowing new paragraph:

17 "After ^{five} ~~three~~ years from the date of the enactment of
 18 the Banking Act of ¹⁹³³ ~~1932~~, no certificate representing the
 19 stock of any such association shall represent the stock of
 20 any other corporation, except a member bank, nor shall the
 21 ownership, sale, or transfer of any certificate representing
 22 the stock of any such association be conditioned in any
 23 manner whatsoever upon the ownership, sale, or transfer
 24 of a certificate representing the stock of any other corpora-
 25 tion, except a member bank."

This section shall take effect five years after the date of the approval of this Act

1 SEC. ¹⁸ 17. Section 5144 of the Revised Statutes, as
2 amended, is amended to read as follows:

3 "SEC. 5144. In all elections of directors and in de-
4 ciding all questions at meetings of shareholders, each share-
5 holder shall be entitled to one vote on each share of stock
6 held by him; except (1) that shares of its own stock held
7 by a national bank as trustee shall not be voted, and (2)
8 shares controlled by any holding company affiliate of a
9 national bank shall not be voted unless such holding com-
10 pany affiliate shall have first obtained a voting permit as
11 hereinafter provided, which permit is in force at the time
12 such shares are voted. Shareholders may vote by proxies
13 duly authorized in writing; but no officer, clerk, teller, or
14 bookkeeper of such bank shall act as proxy; and no share-
15 holder whose liability is past due and unpaid shall be allowed
16 to vote.

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

22 "Any such holding company affiliate may make appli-
23 cation to the Federal Reserve Board for a voting permit
24 entitling it to cast one vote at all elections of directors of
25 such bank on each share of stock controlled by it. The

*or authorizing the trustee or trustees holding
the stock for its benefit or for the benefit
of the shareholders so to vote the same.*

1 Federal Reserve Board may, in its discretion, grant or
2 withhold such permit as the public interest may require.

3 In acting upon such application, the board shall consider
4 the financial condition of the applicant, the general character
5 of its management, and the probable effect of the granting
6 of such permit upon the affairs of such bank, but no such
7 permit shall be granted except upon the following conditions:

8 "(a) Every such holding company affiliate shall, in
9 making the application for such permit, agree (1) to
10 receive, on dates identical with those fixed for the examina-
11 tion of banks with which it is affiliated, examiners duly
12 authorized to examine such banks, who shall make such
13 examinations of such holding company affiliate as shall be
14 necessary to disclose fully the relations between such banks
15 and such holding company affiliate and the effect of such
16 relations upon the affairs of such banks, such examinations
17 to be at the expense of the holding company affiliate so
18 examined; (2) that the reports of such examiners shall
19 contain such information as shall be necessary to disclose
20 fully the relations between such affiliate and such banks
21 and the effect of such relations upon the affairs of such
22 banks; (3) that such examiners may examine each bank
23 owned or controlled by the holding company affiliate, both
24 individually and in conjunction with other banks owned or
25 controlled by such holding company affiliate; and (4) that

*and in deciding all questions
at meetings of shareholders*

1 publication of individual or consolidated statements of con-
2 dition of such banks may be required;

3 “(b) After ~~January 1, 1935~~, every such holding com-
4 pany affiliate (1) shall possess, and shall continue to possess
5 during the life of such permit, free and clear of ^{any} the lien,
6 pledge, or hypothecation of any nature, readily marketable
7 assets other than bank stock in an amount not less than
8 12 per centum of the aggregate par value of all bank stocks
9 controlled by such holding company affiliate, which amount
10 shall be increased by not less than 2 per centum per annum of
11 such aggregate par value until such assets shall amount to 25
12 per centum of the aggregate par value of such bank stocks;
13 and (2) shall reinvest in readily marketable assets other than
14 bank stock all net earnings over and above 6 per centum
15 per annum on the book value of its own shares outstanding
16 until such assets shall amount to ^{such} 25 per centum of the
17 aggregate par value of all bank stocks controlled by it;

18 “(c) Notwithstanding the foregoing provisions of this
19 section, after ~~January 1, 1935~~, (1) any such holding com-
20 pany affiliate the shareholders or members of which shall
21 be individually and severally liable in proportion to the
22 number of shares of such holding company affiliate held by
23 them respectively, in addition to amounts invested therein,
24 for all statutory liability imposed on such holding company
25 affiliate by reason of its control of shares of stock of banks,

1 shall be required only to establish and maintain out of net
2 earnings over and above 6 per centum per annum on the
3 book value of its own shares outstanding a reserve of readily
4 marketable assets in an amount not less than 12 per centum
5 of the aggregate par value of bank stocks controlled by it,
6 and (2) the assets required by this section to be possessed
7 by such holding company affiliate may be used by it for
8 replacement of capital in banks affiliated with it and for
9 losses incurred in such banks, but any deficiency in such
10 assets resulting from such use shall be made up within such
11 period as the Federal Reserve Board may by regulation
12 prescribe;

13 “(d) Every officer, director, agent, and employee of
14 every such holding company affiliate shall be subject to the
15 same penalties for false entries in any book, report, or
16 statement of such holding company affiliate as are applicable
17 to officers, directors, agents, and employees of member
18 banks under section 5209 of the Revised Statutes, as
19 amended; and

20 “(e) Every such holding company affiliate shall, in its
21 application for such voting permit, (1) show that it does not
22 own, control, or have any interest in, and is not participating
23 in the management or direction of, any corporation, business
24 trust, association, or other similar organization formed for
25 the purpose of, or engaged principally in, the issue, flota-

Five years after the enactment
of the Banking Act of 1933

1 tion, underwriting, public sale, or distribution, at wholesale
 2 or retail or through syndicate participation, of stocks, bonds,
 3 debentures, notes, or other securities of any sort (here-
 4 inafter referred to as securities company); (2) agree that
 5 during the period that the permit remains in force it will
 6 not acquire any ownership, control, or interest in any such
 7 securities company or participate in the management or
 8 direction thereof; (3) agree that if, at the time of filing
 9 the application for such permit, it owns, controls, or has an
 10 interest in, or is participating in the management or direc-
 11 tion of, any such securities company, it will, within ^{five} ~~three~~
 12 years after the filing of such application, divest itself of its
 13 ownership, control, and interest in such securities company
 14 and will cease participating in the management or direction
 15 thereof, and will not thereafter, during the period that the
 16 permit remains in force, acquire any further ownership,
 17 control, or interest in any such securities company or par-
 18 ticipate in the management or direction thereof; and (4)
 19 agree that thenceforth it will declare dividends only out of
 20 actual net earnings.

21 "If at any time it shall appear to the Federal Reserve
 22 Board that any holding company affiliate has violated any
 23 of the provisions of the Banking Act of ¹⁹³³ ~~1932~~ or of any
 24 agreement made pursuant to this section, the Federal Re-
 25 serve Board may, in its discretion, revoke any such voting

1 permit after giving sixty days' notice by registered mail of
 2 its intention to the holding company affiliate and affording
 3 it an opportunity to be heard. Whenever the Federal Re-
 4 serve Board shall have revoked any such voting permit, no
 5 national bank whose stock is controlled by the holding com-
 6 pany affiliate whose permit is so revoked shall receive deposits
 7 of public moneys of the United States, nor shall any such
 8 national bank pay any further dividend to such holding com-
 9 pany affiliate upon any shares of such bank controlled by
 10 such holding company affiliate.

11 "Whenever the Federal Reserve Board shall have re-
 12 voked any voting permit as hereinbefore provided, the
 13 rights, privileges, and franchises of any or all national banks
 14 the stock of which is controlled by such holding company
 15 affiliate shall, in the discretion of the Federal Reserve Board,
 16 be subject to forfeiture in accordance with section 2 of the
 17 Federal Reserve Act, as amended."

18 SEC. 18. After ¹⁹ ~~three~~ years from the date of the enact-
 19 ment of this Act, no member bank shall be affiliated in any
 20 manner described in section 2 (b) hereof with any corpo-
 21 ration, association, business trust, or other similar organiza-
 22 tion engaged principally in the issue, flotation, underwriting,
 23 public sale, or distribution at wholesale or retail or through
 24 syndicate participation of stocks, bonds, debentures, notes,
 25 or other securities.

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

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

18 SEC. 19. Paragraph (c) of section 5155 of the Revised
19 Statutes, as amended, is amended to read as follows:

20(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 within the limits 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 1,000,000, and which have no cities located therein with a population exceeding 100,000, the capital shall be not less than \$250,000."

1 ~~and usual business of such association is found to extend into~~
2 ~~an adjacent State, the Federal Reserve Board may permit~~
3 ~~the establishment of a branch or branches by such association~~
4 ~~in an adjacent State but not beyond a distance of fifty miles~~
5 ~~from the place where the parent bank is located. No such~~
6 ~~association shall establish a branch outside of the city, town,~~
7 ~~or village in which it is situated unless it has a paid-in and~~
8 ~~unimpaired capital stock of not less than \$500,000."~~

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

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

17 SEC. 20. Sections 1 and 3 of the Act entitled "An Act
18 to provide for the consolidation of national banking associa-
19 tions," approved November 7, 1918, as amended, are
20 amended by striking out the words "county, city, town, or
21 village" wherever they occur in each such section, and
22 inserting in lieu thereof the words "State, county, city,
23 town, or village."

24 SEC. 21. The first two sentences of section 5197 of the
25 Revised Statutes are amended to read as follows:

1 "Any association may take, receive, reserve, and charge
 2 on any loan or discount made, or upon any notes, bills of
 3 exchange, or other evidences of debt, interest at the rate
 4 allowed by the laws of the State, Territory, or District where
 5 the bank is located, or at a rate of 1 per centum in excess
 6 of the discount rate on ninety-day commercial paper in effect
 7 at the Federal reserve bank in the Federal reserve district
 8 where the bank is located, whichever may be the greater,
 9 and no more, except that where by the laws of any State
 10 a different rate is limited for banks of issue organized under
 11 State laws, the rate so limited shall be allowed for associa-
 12 tions organized or existing in any such State under this title.
 13 When no rate is fixed by the laws of the State, or Territory,
 14 or District, the bank may take, receive, reserve, or charge a
 15 rate not exceeding 7 per centum, or 1 per centum in excess
 16 of the discount rate on ninety-day commercial paper in
 17 effect at the Federal reserve bank in the Federal reserve
 18 district where the bank is located, whichever may be the
 19 greater, and such interest may be taken in advance, reckon-
 20 ing the days for which the note, bill, or other evidence of
 21 debt has to run."

22 ²³ SEC. 22. The second sentence of the first paragraph
 23 of section 5200 of the Revised Statutes, as amended,
 24 is amended by inserting before the period at the end thereof
 25 the following: "and shall include in the case of obligations

1 of a corporation all obligations of all subsidiaries thereof in
 2 which such corporation owns or controls a majority
 3 interest."

4 ²⁴ SEC. 23. Section 5211 of the Revised Statutes, as
 5 amended, is amended by adding at the end thereof the fol-
 6 lowing new paragraph:

7 "Each national banking association shall obtain from
 8 each of its affiliates other than member banks and furnish
 9 to the Comptroller of the Currency not less than three
 10 reports during each year, in such form as the Comptroller
 11 may prescribe, verified by the oath or affirmation of the
 12 president or such other officer as may be designated by the
 13 board of directors of such affiliate to verify such reports,
 14 disclosing the information hereinafter provided for as of
 15 dates identical with those for which the Comptroller shall
 16 during such year require the reports of the condition of the
 17 association. For the purpose of this section the term
 18 'affiliate' shall include holding company affiliates as well
 19 as other affiliates. Each such report of an affiliate shall
 20 be transmitted to the Comptroller at the same time as the
 21 corresponding report of the association, except that the
 22 Comptroller may, in his discretion, extend such time for
 23 good cause shown. Each such report shall contain such
 24 information as in the judgment of the Comptroller of the
 25 Currency shall be necessary to disclose fully the relations

1 between such affiliate and such bank and to enable the
2 Comptroller to inform himself as to the effect of such rela-
3 tions upon the affairs of such bank. The reports of such
4 affiliates shall be published by the association under the same
5 conditions as govern its own condition reports. The Comp-
6 troller shall also have power to call for additional reports
7 with respect to any such affiliate whenever in his judgment
8 the same are necessary in order to obtain a full and com-
9 plete knowledge of the conditions of the association with
10 which it is affiliated. Such additional reports shall be
11 transmitted to the Comptroller of the Currency in such form
12 as he may prescribe. Any such affiliated bank which fails
13 to obtain and furnish any report required under this section
14 shall be subject to a penalty of \$100 for each day during
15 which such failure continues."

16 SEC. ²⁵24. (a) The first paragraph of section 5240 of the
17 Revised Statutes, as amended, is amended by inserting before
18 the period at the end thereof a colon and the following pro-
19 viso: "*Provided*, That in making the examination of any
20 national bank the examiners shall include such an examina-
21 tion of the affairs of all its affiliates other than member banks
22 as shall be necessary to disclose fully the relations between
23 such bank and such affiliates and the effect of such relations
24 upon the affairs of such bank; and in the event of the refusal
25 to give any information required in the course of the exami-

1 nation of any such affiliate, or in the event of the refusal
2 to permit such examination, all the rights, privileges, and
3 franchises of the bank shall be subject to forfeiture in accord-
4 ance with section 2 of the Federal Reserve Act, as
5 amended. The Comptroller of the Currency shall have
6 power, and he is hereby authorized, to publish the report
7 of his examination of any national banking association or
8 affiliate which shall not within one hundred and twenty
9 days after notification of the recommendations or suggestions
10 of the comptroller, based on said examination, have com-
11 plied with the same to his satisfaction. Ninety days' notice
12 prior to such publicity shall be given to the bank or
13 affiliate."

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

17 "The examiner making the examination of any affiliate
18 of a national bank shall have power to make a thorough
19 examination of all the affairs of the affiliate, and in doing
20 so he shall have power to administer oaths and to examine
21 any of the officers, directors, employees, and agents thereof
22 under oath and to make a report of his findings to the
23 Comptroller of the Currency. The expense of examinations
24 of such affiliates may be assessed by the Comptroller of the
25 Currency upon the affiliates examined in proportion to assets

1 or resources held by the affiliates upon the dates of examina-
 2 tion of the various affiliates. If any such affiliate shall
 3 refuse to pay such expenses or shall fail to do so within
 4 sixty days after the date of such assessment, then such
 5 expenses may be assessed against the affiliated national bank
 6 and, when so assessed, shall be paid by such national bank:
 7 *Provided, however, That, if the affiliation is with two or*
 8 *more national banks, such expenses may be assessed against,*
 9 *and collected from, any or all of such national banks in such*
 10 *proportions as the Comptroller of the Currency may*
 11 *prescribe. If any affiliate of a national bank shall refuse*
 12 *to permit an examiner to make an examination of the affiliate*
 13 *or shall refuse to give any information required in the course*
 14 *of any such examination, the national bank with which it is*
 15 *affiliated shall be subject to a penalty of not more than \$100*
 16 *for each day that any such refusal shall continue. Such pen-*
 17 *alty may be assessed by the Comptroller of the Currency and*
 18 *collected in the same manner as expenses of examinations."*

19 SEC. 25. Whenever, in the opinion of the Comp-

20 ²⁶ ~~tr. Sec. 26. If any case in which, in the opinion of the~~
 21 ~~Comptroller of the Currency, any director or officer of a national~~
 22 ~~bank, or of a bank or trust company doing business in the~~
 23 ~~banking association whose business has been closed, for such~~
 24 ~~association to resume business upon the retention by~~
 25 ~~the association, for a reasonable period to be prescribed by the~~
 26 ~~comptroller, of all or any part of its deposits, the comptroller~~
 27 ~~is authorized, in his discretion, to permit the association~~
 28 ~~to resume business if depositors and unsecured creditors of any national~~
 29 ~~bank in his district shall have continued to violate any law~~
 30 ~~relating to such retention of deposits, nothing in this section~~
 31 ~~shall be construed to affect in any manner any powers of the~~
 32 ~~comptroller under the provisions of law in force on the date~~
 33 ~~of enactment of this act with respect to the reorganization~~
 34 ~~of national banking associations."~~

1 tinued unsafe or unsound practices in conducting the business
2 of such bank or trust company, after having been warned
3 by the Comptroller of the Currency or the Federal reserve
4 agent, as the case may be, to discontinue such violations
5 of law or such unsafe or unsound practices, the Comptroller
6 of the Currency or the Federal reserve agent, as the case may
7 be, may certify the facts to the Federal Reserve Board.
8 In any such case the Federal Reserve Board may cause
9 notice to be served upon such director or officer to appear
10 before such board to show cause why he should not be
11 removed from office. A copy of such order shall be sent to
12 each director of the bank affected, by registered mail. If
13 after granting the accused director or officer a reasonable
14 opportunity to be heard, the Federal Reserve Board finds
15 that he has continued to violate any law relating to such
16 bank or trust company or has continued unsafe or unsound
17 practices in conducting the business of such bank or trust
18 company after having been warned by the Comptroller of
19 the Currency or the Federal reserve agent to discontinue
20 such violation of law or such unsafe or unsound practices,
21 the Federal Reserve Board, in its discretion, may order
22 that such director or officer be removed from office. A copy
23 of such order shall be served upon such director or officer.
24 A copy of such order shall also be served upon the bank of
25 which he is a director or officer, whereupon such director or

1 officer shall cease to be a director or officer of such bank:
2 *Provided*, That such order and the findings of fact upon
3 which it is based shall not be made public or disclosed to
4 anyone except the director or officer involved and the direc-
5 tors of the bank involved, otherwise than in connection with
6 proceedings for a violation of this section. Any such director
7 or officer removed from office as herein provided who there-
8 after participates in any manner in the management of such
9 bank shall be fined not more than \$5,000 or imprisoned for
10 not more than five years, or both, in the discretion of the
11 court.

12 SEC. ²⁵26. The right to alter, amend, or repeal this Act
13 is hereby expressly reserved. If any provision of this Act,
14 or the application thereof to any person or circumstances,
15 is held invalid, the remainder of the Act, and the application
16 of such provision to other persons or circumstances, shall
17 not be affected thereby.

72^d CONGRESS }
1st SESSION }

S. 4412

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

APRIL 18, 1932

Read twice and referred to the Committee on
Banking and Currency

APRIL 18, 1932

Reported without amendment

TO AMEND THE NATIONAL BANKING ACT AND THE FEDERAL RESERVE ACT AND TO PROVIDE A GUARANTY FUND FOR DEPOSITORS IN BANKS

APRIL 19, 1932.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

MR. STEAGALL, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H. R. 11362]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 11362) to amend the national banking act and the Federal reserve act, and to provide a guaranty fund for depositors in banks, having considered the same, report favorably thereon with the recommendation that the bill do pass.

The bill is intended to encourage the organization of banks by making investment in banking capital more attractive, to provide stricter methods of examination, better management, and protection to depositors.

Section 1 of the bill amends existing law so as to require national banks hereafter organized to have a minimum capital of \$50,000. Section 2 provides that no association shall be organized without an initial surplus amounting to 10 per cent of its capital stock. An exception is made in the case of an association formed for the purpose of succeeding to the business of an existing bank, which is permitted to be organized with a capital of not less than \$25,000 in the discretion of the Comptroller of the Currency. These provisions raising the minimum capital and surplus requirement seems to be generally accepted as constructive and desirable. The report of the Comptroller of the Currency discloses that near 60 per cent of failures for the past 10 years have been of banks with capital of \$25,000 and less. It can not be fairly contended that all the failures of these banks are due to inadequate capital structure but unquestionably it is not wise to permit a bank with such a minimum of capital stock to accept deposits from the public in unlimited amounts. When initial expenses and overhead costs are absorbed very little is left as margin to safeguard deposits. The requirement for larger capital stock and surplus would be highly advantageous to the stockholders themselves as well as to the public at large.

Section 3 of the bill amends existing law by striking out the provision which renders shareholders of national banking associations liable to assessments in amounts equal to the shares held by them in addition to the amount invested in such shares. The provision for assessment of liability upon shareholders of national banking associations is intended to operate as an additional protection for deposits. In actual practice it has been found that this protection is of little practical value. Only 16 per cent of the liability is collected in cases of insolvent banks liquidated. These collections are usually made upon shareholders of national banking associations not directly connected with the operation of banks but in many cases citizens who merely invested their money to aid in promoting the interest of the community. Many instances are disclosed of heirs inheriting investments in bank stock that turned out to be liabilities entailing hardship and injustice. This has happened so often that the public no longer looks with favor upon investment in bank stock. Citizens no longer care to incur the risk of assessment in addition to money subscribed. The amendment removing that liability will encourage the organization of banks in communities where banking facilities have been destroyed without depriving depositors of any very substantial protection.

Section 4 of the bill provides that sections 1, 2, and 3 of the act shall only apply to national banking associations hereafter organized.

Section 5 of the bill amends the Federal reserve act by providing that Federal reserve banks shall pay one-half of net earnings to member banks to be prorated on a basis of capital stock held by member banks in Federal reserve banks and the other half of net earnings to a fund for the guaranty of deposits. Existing law provides that member banks shall be paid 6 per cent cumulative dividends on their capital stock and that Federal reserve banks shall set aside 10 per cent of earnings to surplus account. Under the bill this will be continued but any remaining earnings will be divided between member banks and a fund for the guaranty of deposits.

Section 6 of the bill would require Federal reserve banks to give immediate credit to member banks upon checks received. It is now the practice of Federal reserve banks to defer payment of checks received from member banks until actually collected or for the period which is estimated to cover the time required for making collection. Federal reserve banks are permitted to charge current rate of interest to cover the time of collection. This charge would be of considerable aid to member banks in maintaining necessary balances and would be especially helpful at seasonal periods when cash requirements are accentuated on account of marketing of crops.

Section 7 of the bill provides that no member bank shall be permitted to pay interest on deposits at a greater rate than 4 per cent per annum with respect to any deposit made after the passage of this act. This provision is designed to prevent any bank from bidding unfairly for deposits. It would protect the public as well as all soundly managed banks against improper practices on the part of weak or less efficiently managed banks.

Section 8 would prevent any member bank of the Federal reserve system from paying any dividend until its surplus amounts to 25 per cent of its paid-in capital stock. When such an amount of surplus is accumulated 6 per cent dividends is permitted to be paid. When

the surplus of a bank amounts to 50 per cent of its paid-in capital stock such bank is permitted to pay 8 per cent in dividends. Whenever the surplus of a bank amounts to 100 per cent of its paid-in capital stock the payment of dividends is made discretionary so long as the surplus is not reduced below 100 per cent of capital. This section is designed to require a surplus to afford the actual protection to depositors which the extra liability of shareholders of national banking associations was intended to afford but which experience has shown to be without the desired practical result.

Section 9 of the bill would confer upon the board provided for in this act the authority to require the removal of any officer or director of any national bank whose continued service is regarded as detrimental to the safe operation of such bank. This provision is intended for the protection of the public and for other banks contributing to the guaranty fund. It is manifest that the success of any plan for the insurance of deposits requires that every safeguard be afforded for honest and efficient management of all banks of the system. The board will have the duty of protecting the public and safeguarding the interest of the banks. No bank official should be allowed to serve unless he measures up to proper standards of honesty and efficiency. No bank official who objects to this standard is worthy of such a trust.

Title 2 of the bill provides for the creation of a guaranty fund for the protection of depositors in banks. Section 201 of this title provides for the establishment of a board to be known as the Federal liquidating board, referred to as the board, to consist of the Secretary of the Treasury, the Comptroller of the Currency, and three members to be appointed by the President by and with the advice and consent of the Senate. Not more than one of the appointed members of the board shall be of the same political party as the President. The appointed members of the board shall hold their offices for a term of four years; the salary of the appointed members of the board shall be \$10,000 per annum, payable monthly; appointed members are ineligible to hold any office, position, or employment in any member bank of the Federal reserve system or on the Federal Reserve Board. The board shall elect its own chairman and is authorized to employ and fix the compensation of such employees, examiners, agents, and other officers as may be necessary; but the compensation of none of these shall be at a rate in excess of \$10,000 per annum. It is provided that the Secretary of the Treasury and the Comptroller of the Currency shall receive no compensation for their services. The expenses of the board are to be paid out of the funds of the board under such rules and regulations as may be prescribed by the board.

Section 202 (a) provides for the payment into the guaranty fund by the United States Treasury an amount equal to the entire sums that have been paid to the United States in lieu of franchise taxes. (This sum is approximately \$150,000,000.) Federal reserve banks are required to pay into the fund out of their surplus the sum of \$150,000,000 to be prorated among the Federal reserve banks on a basis of the surplus held by each of such banks.

(b) The board shall also collect and pay into the fund from member banks of the Federal reserve system the sum of \$100,000,000 to be prorated and paid by member banks on a basis of average deposits during the preceding calendar year. Any time after 12 months from the payment of this sum the board is authorized to collect for the fund

from member banks of the Federal reserve system annually the whole or any part of \$100,000,000 to be prorated and paid by member banks on a basis of average deposits during the preceding calendar year. Payments by Federal reserve banks or by member banks, under this section, are made subject to call by the board at such times and in such amounts as may be determined except that assessments against member banks shall be payable in installments of not more than 25 per cent of such assessments. When the fund exceeds \$500,000,000 the board is authorized to return funds to banks which they have contributed, prorating to each bank its portion of such excess on the basis of its last annual contribution. Sums in the fund shall be invested in interest-bearing obligations of the Government of the United States or noninterest-bearing deposits in member banks of the Federal reserve system.

The Federal reserve banks have made net profits of approximately \$500,000,000. After taking the amount of \$150,000,000 from their surplus funds, they would still have a surplus close to \$150,000,000. The requirement of Federal reserve banks in connection with the guaranty fund could not hamper or embarrass the Federal reserve system.

Section 203 provides that when a bank is found to be insolvent or has been closed by order of the Comptroller of the Currency the Comptroller of the Currency shall certify the fact to the board and the board shall proceed to take over and wind up such bank and the board is given the same powers and duties as apply to the Comptroller of the Currency in such cases. Within 30 days the board shall appoint a committee consisting of one person selected by the board, one selected by owners of a majority of stock of such banks, and one selected by the depositors of more than 50 per cent of outstanding deposits. The committee shall appraise the assets of the bank and estimate the amount of liabilities and make a statement of the amount of the outstanding deposits of each depositor. Upon approval by the board of the estimate and report of the committee and not later than 90 days after the closing of the bank the board shall pay to each depositor whose deposit does not exceed \$1,000, 50 per cent of such deposit and to each depositor whose deposit exceeds \$1,000 not less than 25 per cent of such deposit or not less than \$500. Six months after the first payment the board shall pay each depositor whose deposit is \$1,000 or less the full balance remaining unpaid. Not less than six months later all depositors that have not been paid in full shall be paid not less than 25 per cent of such deposits. Not less than six months later all deposits are to be paid in full. This method of paying depositors would enable the board to realize on the assets of an insolvent bank and meet portions of its obligation out of funds collected in that way. This would prevent any unusual demands upon the board that might result in case of the failure of a large bank.

Section 205 provides that the board may borrow money upon the assets of any bank in process of liquidation for the purpose of making payments to depositors or to creditors, but only for paying depositors and creditors of the particular bank the assets of which are pledged for such loans.

Section 206 provides a method for paying State banks that are members of the Federal reserve system. The same method is employed

as in the case of payments of depositors in national banks except that such payments are made to receivers or liquidating agents of such banks in trust for depositors.

Section 207 provides method for requiring banks to comply with the provisions of this title. Any State bank that is a member of the Federal reserve system may be required to forfeit its membership. Any national bank may forfeit franchises granted under the law.

Section 208 provides that any bank not a member of the Federal reserve system having capital and surplus of \$25,000 or more may contribute to the fund and in case of insolvency have its depositors receive the benefits provided in section 206. No such bank shall be permitted to contribute to such fund nor share in its benefits except after examination by authority of the board and a determination by the board that such bank is in sound financial condition and the further requirement that such bank shall submit to examination by the board at any time. It is further provided that for a period of not more than three years after the passage of this act any bank that is not a member of the Federal reserve system may be permitted to contribute to the fund and share in its benefits upon certificate of the duly constituted State examining authority that such bank is in sound financial condition provided such bank shall pay into the fund an initial assessment equal to twice the amount paid under section 202 (a) by a member bank having the same amount of deposits and such annual contributions as may be required by the board, the same to be in each case twice the amount paid under section 202 by a member bank. Sums payable by any bank under this section shall be subject to call in whole or in part by the board in such amounts as may be prescribed by the board except that assessments against such banks shall be payable in installments of not more than 25 per cent of the assessment. Any bank not a member of the Federal reserve system may be required to withdraw from participation in the benefits of the fund or to go into liquidation and receive its benefits. Any bank withdrawing from participation in the fund shall be reimbursed such an amount of its annual contribution in the proportion which the number of months remaining in the year since such contribution bears to the whole year.

Section 209 provides that until January, 1934, the board shall be authorized to borrow of the Reconstruction Finance Corporation such sums as the board may deem necessary up to a maximum amount of \$500,000,000 at any one time. The board is authorized to contract with the Reconstruction Finance Corporation for such loans and for their repayment in installments out of sums received under section 202, all such loans to be payable in full not later than January 22, 1942. For the purpose of making such loans provision is made for the issue of such notes, debentures, bonds, and other obligations as may be necessary.

It is not thought that there will be any necessity for loans by the Reconstruction Finance Corporation. But the legislation establishing the Reconstruction Finance Corporation was designed primarily to afford assistance to banks to revive confidence in them and to prevent a further breaking down of the banks of the country. The Reconstruction Finance Corporation has rendered splendid service in that connection. It is in keeping with the purpose of that legislation to require of the Reconstruction Finance Corporation the service

provided for in this bill should such aid be required to insure the success of the plan. It is recognized that the success of any guaranty plan depends upon the assurance of the public that adequate resources are available to meet all public demands. It is for this reason that provision is made for loans by the Reconstruction Finance Corporation.

If loans should be made by the Reconstruction Finance Corporation, they would be repaid as in the case of other loans which the corporation is authorized to make.

It is urged by opponents of a depositors' guaranty law that several States have enacted laws for the insurance of depositors against loss and that these State statutes proved inadequate in periods of panic. But the fact remains that these State laws saved depositors in broken banks from losses of many millions of dollars. They prevented runs that would otherwise have closed hundreds of banks had the confidence caused by State guaranty laws been lacking. In the State of Nebraska, where a guaranty of deposits law was in force for nearly 20 years, depositors were protected from loss and confidence in the law was such that after one-third of the State banks had closed the total of deposits in the remaining State banks equaled that held by the banks of that State in the boom year of 1920. Until the constitutionality of the law and the sufficiency of the guaranty fund was attacked there were no runs on the banks insured under the State guaranty law, nor did fall in deposits show loss of confidence by the people of the State.

The State laws to insure bank depositors against loss from failed banks were pioneers in a new field. Because of bad banking, lax enforcement, and weak regulation, the guaranty funds finally proved insufficient to pay losses in a period of panic. The State depositors insurance laws pointed the way to a sound national insurance system. Such a guaranty fund sufficiently financed and properly administered will afford the security that depositors are justly entitled to, who put their faith and money in banks chartered under Federal laws.

Many State laws proved faulty in that they did not give to the State banking department the right to refuse bank charters where such charters should not be granted in the public interest. A sound banking system can only exist where the number of banks is limited to public needs. Banking is a quasi public business. The public interest should always be the first consideration in the granting of bank charters. The public has two prime interests in banks, the first is to provide a safe place for the people's money, the second is to provide a financial reservoir where money and credit may be obtained upon reasonable terms. Overbanking breeds bad banking, speculation and bankruptcy. No matter how sound and carefully drawn laws may be, they will not be effective in protecting the interests of depositors if bankers are permitted to violate their most important provisions.

In Nebraska, the courts decreed that the banking department could not refuse charters. This decision denied to the State's officers an authority essential to the safety of banking and the security and sufficiency of the bank guaranty fund. During the war boom, hundreds of additional State banks were chartered, for which there was no economic use. Too many banks and too few bankers of ability and character destroyed the State guaranty of deposits laws.

The depositors guaranty laws brought prosperity and strength to the State banks when properly administered and saved depositors from losses of millions of dollars. The State depository insurance laws were discredited and destroyed by those who should have been their staunchest defenders. Prudent management and Government supervision of themselves have not proven sufficient security for bank depositors in the past. This fact gives absolute warrant for additional legislation for the safety of depositors from losses in failed banks.

The constitutionality and soundness of a bank depositors' insurance law was established through the enactment and operation of the State laws. In the case of *Shallenberger v. First State Bank of Nebraska*, and *Noble State Bank v. Haskell*, reported in 219 U. S. 114, the United States Supreme Court sustained the State's right to require corporations engaged in banking to contribute a certain percentage to a fund for the protection of depositors who sustained losses because of the failure of insolvent banks. In a more recent case from Nebraska, *Abie State Bank v. Weaver* (282 U. S. 265), the Supreme Court again sustained the constitutionality of the Nebraska statute.

The inefficient examination, lax administrations, and indiscriminate granting of charters in States that enacted guaranty laws furnish lessons of great value in the preparation of new legislation. The experience of States having guaranty laws shows that it is practicable and advisable to adopt a guaranty plan for the Nation.

The bill does not provide for a Government guaranty of deposits. The fund is to be raised by the banks. The initial fund—approximately \$300,000,000—is to be derived entirely from earnings of the Federal reserve banks. These earnings in all fairness belong to the member banks of the Federal reserve system that pay the interest and supply the capital and deposits out of which the Federal reserve banks accumulate their earnings. Assessments upon deposits of banks sharing in the benefits of the fund are to bear the balance of the burden.

Any insurance plan is to be calculated on the cost covering a period of years. Experience shows that over any extended period total losses to depositors in the United States have not reached serious proportions. In a statement before the Committee on Banking and Currency the Comptroller of the Currency testified that the total losses to depositors in national banks and member banks from the enactment of the national bank law down to 1930 amounted to only \$82,000,000. Since then the number of failures and deposits involved have been unprecedented. During the past 10 years 7,800 banks have failed, having deposits of \$2,500,000,000. This is the worst period in history. Surely we shall not have another such experience.

But the fund established by this bill would have been more than ample to have carried out the purpose contemplated over the last 10-year period. Surely if this be true we can not doubt that it will be sufficient to meet the exigencies of the future. We have every reason to hope that the recent wave of failures has spent its force. During the month of February there were 51 failures and during the month of March only 25 and the number is still decreasing.

It is to be regretted, however, that conditions are such that banks continue to hold billions of eligible paper and enormous amounts of cash which could and would be employed in easing credits and reviving business but for the fear of continued withdrawals of deposits.

Loss of confidence is the major factor in this unhappy development. The removal of this fear is the first indispensable step toward business recovery in the United States.

We can not work out of the present situation without the use of banking facilities and banks can not do their part without employing their deposits. They can not employ deposits unless they can get them and they dare not employ them when they have them so long as there is constant danger of wholesale withdrawals.

The public welfare demands relief from these conditions. We must not fail to safeguard the Nation against a repetition of the disasters and distress resulting from bank failures during the past 10 years. It has brought ruin to banks, suffering to depositors, distress to the public, and destruction to business. The one sure method of prevention is protection to depositors. The principle is accepted as sound on every hand by the Government, by the public and by the banks themselves. The Government demands insurance when its funds are intrusted to a bank. Banks require bonds of employees for protection against dishonesty. The public invests in life insurance, in fire insurance, in the insurance of crops. Citizens insure themselves against their own negligence. Banks constantly protect particular deposits when such protection is required. Common sense and simple fairness suggest that the public at large be accorded the same consideration.

It is argued by some that the proposed guaranty plan would require well-managed banks to bear a portion of the losses from mismanagement in other banks. This argument is too shallow and shortsighted to merit serious consideration. There can be no separation of the interests of banks. The little bank is interested in the large bank and the large bank is interested in the little bank. Our banking structure is one building. Any disaster coming upon one is a serious cause for the concern of all. Any bank that carries burglary insurance helps to pay for any burglary that may occur in the United States. Any bank that pays for insurance against the dishonesty of one of its officials contributes to the protection of any bank the funds of which are stolen by an employee. Bankers now universally approve the Federal reserve act, though they vigorously opposed its passage, just as some of them now oppose all suggestions for a guaranty plan for deposits. But the Federal reserve act requires national banks to become members of the system to invest stock in the capital of Federal reserve banks upon which decreased returns are received and requires national banks to maintain deposits with Federal reserve banks without interest. Bankers have learned that the system has brought a vast improvement in banking and great enhancement of the public welfare. Of course, there are some banks that could operate all right without the Federal reserve system just as some banks may still be able to operate all right without guaranty of deposits. But no one would again give serious consideration to any argument against the Federal reserve system because of the requirements imposed upon member banks.

The test to be applied in this legislation as in all others is its effect upon the public welfare. Banks are the creatures of government, established primarily for public service and the promotion and development of agriculture, industry, and commerce. It is not unfair to say that our present banking system fails to afford this service in a

measure essential to national welfare. Present conditions must not be accepted as permanent. They constitute a challenge to the courage and constructive leadership of Congress. We must find a remedy. The first step is a sound plan for the protection of depositors. Some time it will be taken. Why not now?

In conformity with section 2a of Rule XIII of the House Rules, there is herewith printed the various amendments referred to in this bill, showing the paragraphs specifically mentioned of the various sections, with the amendments proposed thereto in italics, as follows:

SEC. 5138 (as amended 1927). 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, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, [and except that such associations with a capital of not less than \$25,000 may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants] and *except that associations formed for the purpose of succeeding to the business of an existing bank may, in the discretion of the Comptroller of the Currency, be organized with a less capital than \$50,000 but not less than \$25,000.*

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. *No association shall be organized unless with a surplus (hereinafter called initial surplus) of not less than an amount equal to 10 per centum of its capital stock.*

SEC. 5168. Whenever a certificate is transmitted to the Comptroller of the Currency, as provided in this title and the association transmitting the same notifies the Comptroller that at least 50 per centum of its capital stock *and that at least 50 per centum of its initial surplus* has been duly paid in, and that such association has complied with all the provisions of this title required to be complied with before an association shall be authorized to commence the business of banking, the Comptroller shall examine into the condition of such association, ascertain especially the amount of money paid in on account of its capital, *and on account of its initial surplus*, the name and place of residence of each of its directors and the amount of the capital stock of which each is the owner in good faith, and generally whether such association has complied with all the provisions of this title required to entitle it to engage in the business of banking; and shall cause to be made and attested by the oaths of a majority of the directors, and by the president or cashier of the association, a statement of all the facts necessary to enable the Comptroller to determine whether the association is lawfully entitled to commence the business of banking.

33. That any two or more national banking associations located within the same county, city, town, or village may, with the approval of the Comptroller of the Currency, consolidate into one association under the charter of either existing bank, on such terms and conditions as may be lawfully agreed upon by a majority of the board of directors of each association proposing to consolidate, and be ratified and confirmed by the affirmative vote of the shareholders of each such association owning at least two-thirds of its capital stock outstanding, at a meeting to be held on the call of the directors after publishing notice of the time, place, and object of the meeting for four consecutive weeks in some newspaper published in the place where the said association is located, and if no newspaper is published in the place, then in a paper published nearest thereto, and after sending such notice to each shareholder of record by registered mail at least ten days prior to said meeting: *Provided*, That the capital stock *and initial surplus* of such consolidated association shall not be less than that required under existing law for the organization of a national bank in the place in which it is located: *And provided further*, That when such consolidation shall have been effected and approved by the comptroller any shareholder of either of the associations so consolidated who has not voted for such consolidation may give notice to the directors of the association in which he is interested within twenty days from the date of the certificate of approval of the comptroller that he dissents from the plan of consolidation as adopted and approved, whereupon

he shall be entitled to receive the value of the shares so held by him, to be ascertained by an appraisal made by a committee of three persons, one to be selected by the shareholder, one by the directors, and the third by the two so chosen; and in case the value so fixed shall not be satisfactory to the shareholder he may within five days after being notified of the appraisal appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding; and if said reappraisal shall exceed the value fixed by said committee, the bank shall pay the expenses of the reappraisal; otherwise the appellant shall pay said expenses, and the value so ascertained and determined shall be deemed to be a debt due and be forthwith paid to said shareholder from said bank, and the share so paid shall be surrendered and after due notice sold at public auction within thirty days after the final appraisement provided for in this act.

SEC. 2. That associations consolidating with another association under the provisions of this act shall not be required to deposit lawful money for their outstanding circulation, but their assets and liabilities shall be reported by the association with which they have consolidated. And all the rights, franchises, and interests of the said national bank so consolidated in and to every species of property, personal and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such national bank into which it is consolidated without any deed or other transfer, and the said consolidated national bank shall hold and enjoy the same and all rights of property, franchises, and interests in the same manner and to the same extent as was held and enjoyed by the national bank so consolidated therewith.

SEC. 3. That any bank incorporated under the laws of any State, or any bank incorporated in the District of Columbia, may be consolidated with a national banking association located in the same county, city, town, or village under the charter of such national banking association on such terms and conditions as may be lawfully agreed upon by a majority of the board of directors of each association or bank proposing to consolidate, and which agreement shall be ratified and confirmed by the affirmative vote of the shareholders of each such association or bank owning at least two-thirds of its capital stock outstanding or by a greater proportion of such capital stock in the case of such State bank if the laws of the State where the same is organized so require, at a meeting to be held on the call of the directors after publishing notice of the time, place, and object of the meeting for four consecutive weeks in some newspaper of general circulation published in the place where the said association or bank is situated, and in the legal newspaper for the publication of legal notices or advertisements, if any such paper has been designated by the rules of a court in the county where such association or bank is situated, and if no newspaper is published in the place, then in a paper of general circulation published nearest thereto, unless such notice of meeting is waived in writing by all stockholders of any such association or bank, and after sending such notice to each shareholder of record by registered mail at least ten days prior to said meeting, but any additional notice shall be given to the shareholders of such State bank which may be required by the laws of the State where the same is organized. The capital stock and initial surplus of such consolidated association shall not be less than that required under existing law for the organization of a national banking association in the place in which such consolidated association is located; and all the rights, franchises, and interests of such State or District bank so consolidated with a national banking association in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such national banking association into which it is consolidated without any deed or other transfer, and the said consolidated national banking association shall hold and enjoy the same and all rights of property, franchises, and interests including the right of succession as trustee, executor, or in any other fiduciary capacity in the same manner and to the same extent as was held and enjoyed by such State or District bank so consolidated with such national banking association.

When such consolidation shall have been effected and approved by the comptroller any shareholder of either the association or of the State or District bank so consolidated, who has not voted for such consolidation, may give notice to the directors of the consolidated association within twenty days from the date of the certificate of approval of the comptroller that he dissents from the plan of consolidation as adopted and approved, whereupon he shall be entitled to receive the value of the shares so held by him, to be ascertained by an appraisal made by a committee of three persons, one to be selected by the shareholder, one by

the directors of the consolidated association, and the third by the two so chosen; and in case the value so fixed shall not be satisfactory to such shareholder he may within five days after being notified of the appraisal appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding; and the consolidated association shall pay the expenses of reappraisal, and the value as ascertained by such appraisal or reappraisal shall be deemed to be a debt due and shall be forthwith paid to said shareholder by said consolidated association, and the shares so paid for shall be surrendered and, after due notice, sold at public auction within thirty days after the final appraisement provided for in this act; and if the shares so sold at public auction shall be sold at a price greater than the final appraised value, the excess in such sale price shall be paid to the said shareholder; and the consolidated association shall have the right to purchase such shares at public auction, if it is the highest bidder therefor, for the purpose of reselling such shares within thirty days thereafter to such person or persons and at such price as its board of directors by resolution may determine. The liquidation of such shares of stock in any State bank shall be determined in the manner prescribed by the law of the State in such cases if such provision is made in the State law; otherwise as hereinbefore provided. No such consolidation shall be in contravention of the law of the State under which such bank is incorporated.

The words "State bank," "State banks," "bank" or "banks" as used in this section shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws.

SEC. 5154. Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than 51 per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of 51 per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the comptroller has given to such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal reserve act and by the national banking act for associations originally organized as national banking associations: *Provided, That the initial surplus of such association shall be not less than that required under existing law for the organization of a national banking association in the place in which such association is located.*

SEC. 5140. At least 50 per centum of the capital stock and at least 50 per centum of the initial surplus of every association shall be paid in before it shall be authorized to commence business; and the remainder of the capital stock [of such association] and initial surplus shall be paid in installments of at least 10 per centum each, on the whole amount of the capital and initial surplus, as frequently as one installment at the end of each succeeding month from the time it shall be authorized by the Comptroller of the Currency to commence business; and the payment of each installment shall be certified to the Comptroller, under oath, by the president or cashier of the association.

SEC. 5141. Whenever any shareholder, or his assignee, fails to pay any installment on the stock or on the initial surplus when the same is required by the preceding section to be paid, the directors of such association may sell the stock of such delinquent shareholder at public auction, having given three weeks' pre-

vious notice thereof in a newspaper published and of general circulation in the city or county where the association is located, or if no newspaper is published in said city or county, then in a newspaper published nearest thereto, to any person who will pay the highest price therefor, to be not less than the amount then due thereon (including amounts due from such shareholder with respect to initial surplus), with the expenses of advertisement and sale; and the excess, if any, shall be paid to the delinquent shareholder. If no bidder can be found who will pay for such stock the amount due thereon (including amounts due from such shareholder with respect to initial surplus) to the association, and the cost of advertisement and sale, the amount previously paid shall be forfeited to the association, and such stock shall be sold as the directors may order, within six months from the time of such forfeiture, and if not sold it shall be canceled and deducted from the capital stock of the association. If any such cancellation and reduction shall reduce the capital of the association below the minimum of capital required by law, the capital stock shall, within thirty days from the date of such cancellation, be increased to the required amount; in default of which a receiver may be appointed, according to the provisions of section 5234, to close up the business of the association.

SEC. 5205 (as amended 1876). Every association which shall have failed to pay up its capital stock, or initial surplus, as required by law, and every association whose capital stock shall have become impaired by losses or otherwise, shall, within three months after receiving notice thereof from the Comptroller of the Currency, pay the deficiency in the capital stock and initial surplus, by assessment upon the shareholders pro rata for the amount of capital stock held by each; and the Treasurer of the United States shall withhold the interest upon all bonds held by him in trust for any such association, upon notification from the Comptroller of the Currency, until otherwise notified by him. If any such association shall fail to pay up its capital stock, and initial surplus, and shall refuse to go into liquidation, as provided by law, for three months after receiving notice from the Comptroller, a receiver may be appointed to close up the business of the association, according to the provisions of section 5234:

SEC. 5143. Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital and surplus to any sum not below the amount required by [this title] existing law to authorize the formation of associations.

SEC. 5151. The shareholders of every national banking association shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such association, to the extent of the amount of their stock therein, at the par value thereof [in addition to the amount invested in such shares]; except that shareholders of any banking association now existing under State laws, having not less than \$5,000,000 of capital actually paid in, and a surplus of 20 per centum on hand, both to be determined by the Comptroller of the Currency, shall be liable only to the amount invested in their shares; and such surplus of 20 per centum shall be kept undiminished, and be in addition to the surplus provided for in this title; and if at any time there is a deficiency in such surplus of 20 per centum, such association shall not pay any dividends to its shareholders until the deficiency is made good; and in case of such deficiency, the Comptroller of the Currency may compel the association to close its business and wind up its affairs under the provisions of chapter 4 of this title.

The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof [in addition to the amount invested in such stock]. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

SEC. 7. After all necessary expenses of a Federal reserve bank 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 10 per centum of the net earnings of such bank shall be paid [to the United States as a franchise tax except

that the whole of such net earnings, including those for the year ending December 31, 1918, shall be paid into a surplus fund until it shall amount to 100 per centum of the subscribed capital stock of such bank, and that thereafter 10 per centum of such net earnings shall be paid into the surplus] into the surplus. One-half of the remainder of the net earnings shall be paid into the Federal guaranty fund for depositors in member banks of the Federal reserve system, and the remaining one-half shall be paid to the member banks of the Federal reserve system, of which amount each such bank shall be paid an amount which bears the same ratio to the amount of such remaining one-half as the paid-in capital stock owned by stockholders in such member bank bears to the total paid-in capital stock owned by all stockholders in all member banks of such Federal reserve bank.

SEC. 7. After all necessary expenses of a Federal reserve bank 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 to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December 31, 1918, shall be paid into a surplus fund until it shall amount to 100 per centum of the subscribed capital stock of such bank, and that thereafter 10 per centum of such net earnings shall be paid into the surplus.

[The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury.] Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall in the discretion of the Secretary, [be paid to and become the property of the United States and shall be similarly applied.]

[Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.] be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury.

SEC. 13. Any Federal reserve bank may receive from any of its member banks and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks, and drafts payable upon presentation, or maturing notes and bills: Provided, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: Provided further, That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks.

Upon application of a sending bank, a Federal reserve bank shall give immediate credit on checks and drafts received from such bank for collection, but the Federal reserve bank may charge on such credit an amount of interest calculated at the current rediscount rate from the time of receipt of such item to the time of collection thereof, or with the approval of the Federal Reserve Board, may establish a time schedule for the calculation of such period.

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Confidential

April 20, 1932.

COMMENTS ON GLASS BILL, AS REPORTED OUT BY SENATE COMMITTEE
ON BANKING AND CURRENCY

(References are to S.4412, April 18, 1932)

Sections 5(b) and 23, page 6, line 12; page 9, line 8; page 47, line 7:

These references are all to places in the bill dealing with reports and examinations of affiliates. The language of the bill is mandatory, stating that these reports and examinations shall be made. In view of the very broad definition of affiliates, which would include industrial and other corporations having nothing to do with banking, discretion should be left to determine whether the reports and examinations of affiliates should be obtained in all cases. Language that would accomplish this purpose is incorporated in the Board's report on the Glass bill, on pages 10, 11, and 67.

Section 5(b), page 8, lines 5-10:

This section, which imposes upon state member banks 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, should be eliminated for the same reasons as in the case of similar restrictions in section 14 which applies to national banks. The language of this provision, when read in connection with lines 1 to 4 on page 36, which prohibit national banks from holding stock, has given rise to the question whether state member banks would not be required to dispose immediately of stock in a subsidiary

corporation. In view of this question, if this paragraph is not omitted, its effective date should be postponed for a period corresponding to that applicable to the separation of security affiliates.

Section 7, on page 13, lines 4-9:

The establishment by law of the existing Federal open market committee is undesirable on the grounds stated in the comments of the Federal Reserve Board. It is particularly important to limit the committee to its present jurisdiction over open market operations for system account. As proposed in the bill, a majority of a committee consisting of representatives of the twelve banks would have the power, which they do not possess under present procedure, to prevent an individual reserve bank from purchasing an acceptance, a municipal warrant, or any other investment authorized by law, and thus to obstruct the operation of the reserve banks.

Section 7, page 16, lines 9-19:

Requirement that member banks shall contribute about \$65,000,000 (one-half in full within 90 days) to the capital of the Liquidating Corporation is contrary to the Federal Reserve Board's recommendation, and would be undesirable, particularly at this time.

Section 7, page 20, lines 24-25; page 21, lines 1-4:

Loans made by the Liquidating Corporation on assets of closed banks must be based on valuations determined by committees on which it is not represented. It is undesirable to prescribe by law the procedure which should be followed in this respect.

Section 8, page 28, lines 8-24:

Omission of these provisions dealing with advances to member banks on 15-day notes was recommended by the Federal Reserve Board. They are unnecessary, because their objects are accomplished in a more satisfactory way by section 3. The language in section 8 implies that all loans on securities are of questionable propriety, and the section is based on the theory, not supported by the system's experience, that advances on member bank 15-day notes have a different effect on the credit situation than rediscounts. The Board's recommendation that the maximum maturity of advances to member banks be extended to 90 days when secured by eligible paper, should be incorporated in the bill.

Section 14, page 34, lines 15-21:

Authorizes national banks to engage in all forms of banking business permitted to state banks, unless specifically prohibited by law. This provision would lower the standards of national banking and make the problem of supervision over these banks more difficult. The Comptroller of the Currency under this section would have to be familiar with the legislation of all the states conferring powers on the state banks, and would have to apply this legislation in his dealings with the national banks of each state. Furthermore, it is doubtful whether some powers which may be possessed by state banks should be conferred on national banks. The Federal Reserve Board recommended omission of this entire section (section 14) which restricts the operations of national banks in the investment field, on the general ground that at this time when the country's banking system is going through a period

of severe readjustment such restrictions on national banks may prove disturbing and may retard recovery. It is also a question whether such restrictions are wise so long as national banks are in competition with state banks which are not subject to such restrictions.

Section 18, page 43, line 18:

It would be better to allow five years, rather than three, for the separation of security affiliates from member banks.

Section 22, page 46, line 25, and page 47, lines 1-3:

It should be made clear that this section, which provides that loans to subsidiaries should be included with loans to parent companies in connection with the limitations on loans to one borrower, would be applicable only to future loans and it should not become effective until after three years.

Section 24, page 49, lines 5-11:

The language on these lines gives the Comptroller of the Currency the power to publish the report of his examinations of any national banking association or affiliate which shall not have complied within a certain period with his recommendations or suggestions. This is an extremely drastic power to place in the hands of any one man.

Calendar No. 604

72D CONGRESS }
1st Session }

SENATE

REPORT
No. 584

OPERATION OF THE NATIONAL AND FEDERAL RESERVE BANKING SYSTEMS

APRIL 22, 1932.—Ordered to be printed

Mr. GLASS, from the Committee on Banking and Currency, submitted
the following

REPORT

[To accompany S. 4412]

The Senate Committee on Banking and Currency has had under consideration S. 4412, "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," and reports it back to the Senate with the recommendation that the bill be passed.

The bill thus reported is the result of extensive hearings by a duly authorized subcommittee of the Banking and Currency Committee of the Senate and, more recently, hearings by the general Banking and Currency Committee. The investigation of banking problems was held under the terms of Senate Resolution No. 71, adopted at the second session of the Seventy-first Congress, reading as follows:

Resolved, That in order to provide for a more effective operation of the National and Federal reserve banking systems of the country the Committee on Banking and Currency of the Senate, or a duly authorized subcommittee thereof, be, and is hereby, empowered and directed to make a complete survey of the systems and a full compilation of the essential facts and to report the result of its findings as soon as practicable, together with such recommendations for legislation as the committee deems advisable. The inquiry thus authorized and directed is to comprehend specifically the administration of these banking systems with respect to the use of their facilities for trading in and carrying speculative securities; the extent of call loans to brokers by member banks for such purposes; the effect on the systems of the formation of investment and security trusts; the desirability of chain banking; the development of branch banking as a part of the national system, together with any related problems which the committee may think it important to investigate.

For the purpose of this resolution the committee, or any duly authorized subcommittee thereof, is authorized to hold hearings, to sit and act at such times and places during the sessions and recesses of the Seventy-first and succeeding Congresses until the final report is submitted, to employ such clerical and other

assistants, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, and to take such testimony, and make such expenditures as it deems advisable. The cost of such stenographic services to report such hearings shall not be in excess of 25 cents per hundred words. The expenses of the committee, which shall not exceed \$15,000, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman.

Acting upon the authority of the foregoing resolution the Senate Committee on Banking and Currency appointed a subcommittee to conduct the inquiry, which subcommittee proceeded in three ways:

1. It held hearings during the months of January and February of the year 1931 and at these hearings interrogated numerous witnesses, representing the banking, financial, and technical elements in the community, who either indicated a desire to be heard or were invited by the committee as probably possessing information that would be valuable.

2. Inquiries were made among a select list of representative banks by the method of questionnaires. Lists of questions were carefully formulated by experts and transmitted to the banks; and, in nearly all cases, replies of a full and complete description were forwarded by the latter. These have been carefully analyzed and the result published as appendixes to the hearings.

3. Statistical and other investigations were conducted by investigators attached to the committee; and their results reported and published in connection with the hearings. In addition, reports on topics of a technical nature calling for special inquiry were placed before the committee.

In addition to the foregoing the committee carried on an extensive correspondence and received numerous suggestions, recommendations, and other presentations of argument or evidence. It also received various drafts of proposed legislation, and gave due consideration to all. It found, however, that public opinion was in an indeterminate condition on the whole subject, and felt that immediate emergencies were so great that it was wise to defer the preparation of a completely comprehensive measure for the reconstruction of our banking system, such as had been urged by some responsible men. Hence the committee resolved to construct a bill to correct manifest immediate abuses, and to bring our banking system back into a stronger condition. Thus, for example, it seems to be the consensus of opinion among banking authorities that the United States will never have a complete and strong system until such time as it shall succeed in fully harmonizing and adjusting State and Federal laws on banking questions. This might involve a constitutional amendment or some equally far-reaching measure necessitating a long postponement of action.

The immediate measures of reform and rectification are, however, quite important. They include the correction of evils which reached a peak of danger in 1929 and abuses which have gradually grown up within the banking system itself. Immediate dangers and emergencies have been of so pressing a nature as to throw into the background many of the evils which have previously been recognized and to divert discussion from causes to the immediate effects of what was done in recent years. It is, therefore, needful to consider at some length the general background of the banking conditions which culminated in the breakdown of 1929.

INFLATION OF BANK CREDIT

There seems to be no difference of opinion with reference to the statement that the years after 1925, and indeed to a smaller extent those preceding that date and subsequent to 1922, were years of a very great inflation of bank credit—as well as of commercial credit and, especially in the later years, of business. By inflation, in the sense in which that word is here used, is meant the increase of bank liabilities, usually demand liabilities, in a proportion or degree materially greater than the rate of increase indicated by the requirements of a gradual growth of business transactions involving the production and distribution of goods—in a degree or ratio, therefore, greater than that in which the need for media of exchange had grown—usually accompanied by corresponding changes in liquidity. By way of demonstration or illustration of this statement in very brief form, we may simply cite the enlargement of deposit liabilities of the banks during the past few years prior to 1929 and the great subsequent enlargement of investments and frozen loans. This growth was not paralleled by any similar enlargement of the demand for means of exchange, as is suggested by the various indexes reflecting the rate of production.

Inflation was also indicated by the uses to which the credit thus established was put and the advance in prices thereby brought about. It is now evident that the increase in deposit credit on the part of the banks already described was largely used in three ways: (1) In the carrying and inflating of the prices of securities, especially common stocks, (2) in the overdevelopment of real estate and real estate enterprises, and (3) in the upbuilding of a large capital equipment paid for with short-term accommodation but not funded at the time into longer-term loans.

BEARINGS ON CREDIT EXPANSION

Analysis of the sources from which the excessive credit used in the stock market during past years was drawn, is a primary factor in determining what was really at fault in the management of banking during the years in question. This is of special interest in connection with the so-called brokers' loans.

The loans in question are divided into two main groups, the one obtained from banks and bankers while a second represents those obtained from "others." These "others" were corporations and other nonbanking lenders, including investment trusts and many others having funds to spare who chose to advance them for use in supporting securities transactions. The question is thus naturally raised: Where did the "others" thus spoken of obtain their funds? They obtained them, of course, in substantial measure from the public at large through sales of new issues, which rose steadily through this period. In part, also, they were a result of the use of large war-time and postwar earnings, which were retained from stockholders instead of being paid out as dividends.

The major source of the inflation, however, was the creation of new bank credit through large loans and investments by banks that had substantial surplus reserves, owing to gold imports, open market operations of the reserve banks, etc.

USE OF PROCEEDS OF NEW ISSUES OF SECURITIES

A large portion of the funds obtained by these issues of securities from the public was unavoidably used in new construction and in carrying out the legitimate purposes of the businesses which thus obtained them from the investors of the country. Another large portion was, however, left over; it was not directly required for immediate use, the issuers of securities having overborrowed or overcapitalized themselves, so that they were in possession of more current funds than they needed. This surplus of funds went into the stock market and fostered excessive speculation, although it also stimulated business by being transferred to sellers of securities later on.

Where did the public which bought the securities of such corporations get the funds they thus supplied? Some portion of the money naturally came from savings and current incomes, but a larger fraction was unquestionably obtained from the banks by means of the security borrowings to which reference has been made at an earlier point. The banks were thus lending directly in unprecedentedly large amounts directly to brokers; but they were also lending in even larger amounts on collateral to the general public, which was then taking the funds so supplied and using them in large degree for the purchase of securities whose proceeds were applied to speculative loans in the market. The flow of funds through the hands of the general public into those of the corporations, and from the latter into the hands of brokers and dealers, who then re-lent the funds to the public engaged in speculation, was thus primarily the result of a loose banking policy which had turned from the making of loans on commercial paper to the making of loans on security. This policy was critically referred to by the Federal Reserve Board, which often called attention to it in its annual reports.

THE GROWTH OF ACCEPTANCE CREDIT

The general ease and accessibility of credit under the régime which existed prior to 1929 was accentuated by the issue of the instrument known as the bankers' acceptance. In its original purpose this form of lending was intended to include only unquestionably liquid obligations, growing out of the actual sale of goods in foreign trade, so that the acceptance became a short-term claim payable in international funds, usually gold. It was this conception of the instrument which was originally adopted in the Federal reserve act, and on which the use of the instrument by the Federal reserve system was founded. Later amendments to the reserve act, adopted during the World War, broadened the use of the acceptance and opened the door to the application of a conception of its use which was practically that of a finance bill—a bill drawn without reference to the immediately liquid character of a given transaction, and primarily based upon the general power of the parties to it to see that it was liquidated from some source. The use of the acceptance to supply what was called dollar exchange, although doubtless of advantage under proper restrictions, undoubtedly opened a door to grave abuses, which were in some measure responsible for the credit difficulties that later made their appearance in South American finance. These difficulties, however, were after all comparatively minor, the real dangers of the accept-

ance being exhibited in connection with the stretching of the definition of various transactions so as, for instance, to include storage of commodities as an incident to their moving abroad or moving from one market to another so that acceptances protected by such stored goods were regarded as acceptances made against goods actually moving in international trade. It was easy to pass from this view of the situation to another and more advanced view, wherein stored goods not sold during the period of the acceptance were used as goods properly providing a basis for renewal of the acceptance so that revolving acceptances or acceptances growing out of revolving credits became common, notwithstanding official warnings against them.

From the domestic standpoint, it would seem clear that not a few banks had fallen into the habit of supplying their customers with funds through the issue and sale of their acceptances, without much regard to the question whether such acceptances were called for or not. That the large amount of reserve credit thus created prevented effective control of security loans and investments of the banks, and thus fostered the stock market boom, there can be little doubt.

Through these and similar means, too, a very large commitment on the part of American banks taken on behalf of foreign banks came into existence. Germany, in particular, proved to be a great borrower on this score, and the total of acceptances made directly or indirectly in order to provide funds for foreign banks grew to unprecedented amounts. The effect of these transactions upon the German banks themselves, in leading up to the German financial collapse of July, 1931, has been carefully traced by the international committee of bankers which met under the chairmanship of Mr. A. H. Wiggin in Basle, after the breakdown of Germany during the past summer, for the purpose of discussing ways and means of dealing with the German credit situation.

BANK INSOLVENCIES

Every discussion of the conditions which preceded the panic of 1929 must make full allowance for the bank insolvencies which during the years after 1924 began to grow so numerous. The following brief tabulation furnished to another subcommittee affords the facts regarding bank insolvencies during the year 1931, while figures for earlier years were furnished by the Comptroller of the Currency during the hearings of the past winter, and are computed on a somewhat different basis by the Federal Reserve Board in its monthly bulletin. It is obvious that bank failures, whatever may be the basis upon which they are computed, have reached an unprecedentedly high level after a long continued growth extending over a decade. The effect of these insolvencies prior to the panic of 1929, was twofold. They tended to break down the business structure of the country and particularly of the places and regions in which they were most numerous, and they tended to bring on local hoarding over large areas. The condition of affairs is complex, growing as it did, out of a variety of conditions. Most of these circumstances have been outlined in the hearings, and there is little use in further reviewing them at this point. For the most part they are well known.

There should, however, be no failure to recognize the important rôle played by these insolvencies in preparing the way for the gen-

eral breakdown of 1929. The fact that they occurred more largely among "small banks," as has often been urged, in no way reduces the significance of the phenomenon. It points to a gradual disintegration of banking under present conditions and it reflects the community's way of gradually curing the evils complained of, though a lengthy and costly process. It was this tendency to bank failure starting 10 years ago after the depression of 1920-21 and steadily growing more and more pronounced, except during the boom years, until it reached the astonishing height touched in 1930 that has culminated in the great total of nearly 2,300 failures occurring in this country during the year 1931. This drift toward failure among banks laid the foundation for extreme difficulties experienced during the latter part of 1931, and necessitated the remedial measures that were then undertaken. Bank failures can not but be regarded as one of the fundamental symptoms that must be given primary study in the search for remedies to be applied to present conditions.

Bank suspensions in 1931, preliminary figures

	All banks		National banks		State bank members		Nonmember banks	
	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits
Year 1931, total.....	2,290	\$1,759,000,000	410	\$473,000,000	108	\$302,000,000	1,772	\$984,000,000
Last quarter of 1931.....	1,049	866,000,000	199	244,000,000	51	155,000,000	799	467,000,000
November and December, 1931.....	527	388,000,000	99	128,000,000	26	37,000,000	402	223,000,000
October, 1931.....	522	478,000,000	100	116,000,000	25	118,000,000	397	244,000,000
November, 1931.....	174	69,000,000	35	28,000,000	8	4,000,000	131	37,000,000
December, 1931.....	353	319,000,000	64	100,000,000	18	33,000,000	271	186,000,000

STOCK-EXCHANGE SPECULATION

Stock-exchange speculation in excess is often spoken of by some as the cause and by others as an unfortunate result of the business, banking, and credit conditions which culminated in the panic of 1929. It was neither of these, but was an accompaniment or symptom of unsound credit and banking conditions themselves. The facts as to the expansion of such speculation are well known, and its history requires no repetition, but the major data, facts, and conclusions may be briefly summarized as including: (1) A steady increase in bank security loans and investments; (2) rising price resulting from the increased resulting demand; (3) a sporadically enlarging volume of stock-exchange operations and new issues made possible by popular enthusiasm thus engendered; and, finally (4) a violently fluctuating course of prices on the stock exchange continuing until the whole structure fell of its own weight, resulting in the sharp downward movement which began in the autumn of 1929 and has been followed by sporadic collapses at various times since.

INFLUENCE OF PUBLIC FINANCE

It must be noted, in reviewing the situation which preceded the panic of 1929, that methods then adopted in connection with public finance had a very substantial share in bringing on the collapse of

that year. Almost all governments both here and abroad have permitted themselves to overborrow on short term. When such borrowing has been effected at banks, as has been the case in most instances the result has been to add to inflation by getting the banks to carry as credit what was really long-term capital investment. In the United States very low money, the result of exceptionally low interest and discount rates, rendered it possible to effect such borrowing on a very economical basis. The result was the extended use of the banks for the purpose of carrying unfunded public debt, often in the expectation that such debt would be shortly funded and could be so funded at any time determined upon by the borrowing government as suitable. The growth of very large public-bond holdings, including not only the obligations of the United States but of various States and cities, operated strongly to limit the banks' liquidity by engaging their funds in what were really long-term investments. From the outbreak of the panic and during the subsequent depression there was never a favorable time for refunding, and the result has been to leave many banks with unduly large burdens of public bonds. So far as Federal reserve banks were concerned, the fact that the obligations of the Federal Government could always be used to protect member-bank borrowings inevitably tended to encourage such members in developing frozen portfolios.

REAL-ESTATE INFLATION

One element which deserves special notice in any study of pre-panic conditions is afforded by real-estate inflation and speculation. It is not possible to find authoritative statements of the growth of the volume of real-estate loans and security investment in the portfolios of the banks and elsewhere, but the general facts in the case are clearly enough known. The immense increase in the volumes of real-estate bond issues and of real-estate mortgages both in banks and among the holdings of the financial institutions generally are the subject of widespread comment. What is less well recognized is the fact that an immense overexpansion of real-estate values was set in motion and that in consequence the coming on of the panic and their recognition that the country was "overbuilt" added an element of great difficulty to the situation. This element of difficulty is vividly illustrated by the circumstance that many institutions now find themselves hopelessly embarrassed by their real-estate commitments and by the fact that rents and selling values have so seriously shrunk.

PROBLEMS OF RESERVE BANKS

At times the reserve banks have held an unprecedented amount of gold during the past two or three years and the gold stock of the country has occasionally been well above \$5,000,000,000, so that the reserve percentage of the reserve banks has been steadily high, notwithstanding fluctuations and a recent tendency to recede. These high ratios, however, have much less direct bearing upon the actual condition of the system than is generally supposed. The real problem of reserves is furnished by the relationship between the outstanding deposits of the banks of the country and the gold reserve which the reserve banks themselves carry. This ratio or relationship has

until recent months shown continuous tendency to decline. The great gold movements of the past half year and the liquidation of many banks have somewhat changed the situation, but it has continued true that the ratio was inadequate while the tendency of a portion of the public to hoard currency has necessitated the issue of reserve notes in large volumes with corresponding shrinkage of the so-called free gold available. During the three years before the collapse of 1929 unduly low discount rates were a cause of danger to reserve banks. They have been viewed by some banking authorities as a chief cause of the difficulties which compelled Great Britain to abandon the gold standard in the summer of 1931. The question of reserve policy is an involved and complex one on which your committee took much testimony and also pursued an extended study whose results are stated, in the words of the reserve banks themselves, in part 6 of the hearings (appendix). So fully are the facts there reviewed and so authoritatively are they stated by the reserve-bank authorities that it has not been thought necessary to enlarge more fully upon the situation in this report.

CONDITION OF MEMBER BANKS

The outstanding development in the commercial banking system during the prepanic period was the appearance of excessive security loans, and of overinvestment in securities of all kinds. The effects of this situation in changing the whole character of the banking problem can hardly be overemphasized. National banks were never intended to undertake investment banking business on a large scale, but the whole tenor of legislation and administrative rulings concerning them has been away from recognition of such a growth in the direction of investment banking, as legitimate. Nevertheless it has continued; and a very fruitful cause of bank failures, especially within the past two years, has been the fact that the funds of various institutions have been so extensively "tied up" in long-term investments. The growth of the investment portfolio of the bank itself has been greatly emphasized in importance by the organization of allied or affiliated companies under State laws, through which even more extensive advances and investments in the security market could be made. This question, like that relating to the policy and situation of reserve banks, has extensive ramifications which must be studied statistically. In order to provide material for such a study, the results of questionnaires addressed to a selected list of large banks, each possessing one or more affiliates, have been assembled in general tabular form with such explanation as is necessary to enable the reader to evaluate the figures thus given. They are presented as part 7 of the hearings (appendix).

ANALYSIS OF PRESENT BANKING PROBLEM

We have furnished thus far a merely descriptive account of the financial and credit conditions which preceded the panic of 1929. It now remains to consider these facts as exhibiting a distinct kind of banking problem and to inquire in what way remedies for it may be found. Specific conditions which stand out as requiring some remedy are therefore taken under consideration, as follows:

1. *Bank loans and their uses.*—It is evident from what has been said that the underlying factor in the whole prepanic situation was excessive use of bank credit. The question of "excess" is a question of judgment and can only be determined by noting in specific terms the forms it has taken and the remedies to be applied to them.

(a) The excessive use of bank credit in making loans for the purpose of stock speculation or, more generally stated, for the excessive carrying of securities with borrowed money was generally admitted before the panic of 1929, and almost universally since that time, to have been one of the sources of major difficulty, far exceeding in its scope any total that could be reasonably asked for as a basis for the financing of legitimate investment business. Under this same topic, too, must be mentioned the so-called "brokers' loan." These are merely a special form of securities loan in which a bank or commercial corporation or other enterprise advances funds through an intermediary—the broker—instead of lending direct; an excessive volume of brokers' loans must be considered in the light of the total volume of security loans outstanding. The category of brokers' loans obtained from "others" is a separate and especially difficult aspect of this problem.

(b) It seems clear that any remedial measure of legislation should seek to provide some check upon the abnormal growth of all security loans at banks as well as seek to limit the loans to brokers, especially those loans originating with "others." Such legislation, if successful, should operate to lessen the danger of a repetition of the experience of 1929. It is often suggested that control of this form of credit ought to be effected in some way through stock exchanges. Whatever may be thought of that method of approaching the subject, it is at all events certain that nothing of the kind would be likely to succeed without adequate banking control, while on the other hand, banking control alone may greatly ameliorate conditions in this field of credit.

(c) The line of reasoning thus presented leads us to propose:

(1) Legislation designed to control and limit brokers' loans, particularly to limit the use of funds of the reserve banks for this purpose.

(2) Legislation designed to restrain the diversion of bank funds to an undue degree into direct loans upon securities whether to brokers or to others.

(3) Legislation intended to prevent, so far as legislation can, speculative market loans by corporations engaged in industrial or business enterprises.

2. *Banking affiliates.*—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, and that, as a result, machinery has been created which tends toward danger in several directions.

(a) The greatest of such dangers is seen in the growth of "bank affiliates" which devote themselves in many cases to perilous underwriting operations, stock speculation, and maintaining a market for the banks' own stock often largely with the resources of the parent bank. This situation was never contemplated by the national banking act, and it would, therefore, appear that the affiliate sys-

tem calls for the establishment of some legislative provisions designed to deal with the situation. It has been suggested from many quarters that the affiliate system be simply "abolished." This suggestion has much authority behind it, but, in addition to the manifest difficulty of enforcement, owing to the existence of well-known subterfuges to maintain control, there remains the question whether it would be of much real service so long as State legislation permits the growth of affiliates in connection with State banks and trust companies. The committee has, therefore, determined to present proposed legislation aimed at the following objects:

(1) To separate as far as possible national and member banks from affiliates of all kinds.

(2) To limit the amount of advances or loans which can be obtained by affiliates from the parent institutions with which they are connected.

(3) To install a satisfactory examination of affiliates, working simultaneously with the present system of examination applicable to the parent banks.

(b) *Group banking.*—Closely allied in many points of similarity with the affiliate system is the plan of group banking in operation in some parts of the United States, working, in a few cases, on a large scale. In this system a holding company is organized under State law and proceeds to buy a majority of the stock of a series of banks, operating them thereafter through the holding company. In this way in some districts such holding companies control the reserve bank of the district through ownership of enough banks to carry an election. The difference between this plan and the affiliate system itself is that in the one banks are owned by a State-organized holding company, while in the other State-organized companies (affiliates) are owned by a national bank's stockholders, or in some cases directly by trust companies, under some form of law which amounts to ownership by the parent bank itself. The evils of indirect control are similar in the two cases, and they may lead to similar abuses, as is seen when it is noted that holding companies also usually control companies organized for security financing. However, such companies have in some parts of the United States become well rooted, and the difficulty of eliminating or abolishing them in any effective way is similar to the difficulty of eliminating or abolishing the affiliates of city banks. It is, therefore, thought best to attempt the control and oversight of these companies on the following terms:

(1) Since the companies are State corporations, Congress has no control over them, except that which may be voluntarily granted. However, since the staple of their ownership or holdings is the stock of National and State member banks, it would seem that Congress may control the conditions under which such stocks may be owned and particularly voted.

(2) The affiliates of this type (holding companies) are prohibited from voting the stocks of national banks unless they are willing to undertake to accept examination by the Federal Reserve Board, divest themselves of ownership of stock and bond financing concerns, and comply with regulations designed to insure their ownership of sufficient free assets to make sure that they can satisfy the double liability of their shareholders in case any of the banks owned by such a company should go into the hands of receivers or be closed.

(3) It is thought that, in any event, holding companies should not be allowed, except in a severely limited way, to vote at elections of Federal reserve bank directors, since otherwise the Federal reserve bank would become merely the creature of the holding company. Such voting is therefore definitely restricted.

3. *Insolvency of banks.*—Within the past few years, the insolvency of banks has been a major cause of distress and business difficulty in all parts of the country. There is no one sovereign remedy for this condition or tendency. It grows out of the weakness of the banking system and the way to correct it is, of course, to correct defects in the system itself. However, we believe that this tendency to constitutional weaknesses is to be remedied or alleviated by measures of several sorts. These we shall briefly enumerate as follows:

(a) Strengthening of the capital of banks.

(b) Provisions for closer and stronger supervision.

(c) More careful restriction of investments.

(d) Requirements for the truthful valuation of assets.

(e) Protection of depositors and limitation of their losses through a liquidating corporation.

These provisions if acted upon in good faith by administrators will do something to correct the insolvency situation, but there is no denying the fact that our banking system is going through a period of great change and that the ultimate destination of the system is not yet fully clear. Because of that fact, provision for branch-banking powers under carefully qualified conditions with a view to making a larger experiment with branch banking is deemed essential and due provision for it is made. Specifically, what is proposed is the grant of power to establish branches of national banks not merely in the towns and cities in which they are located but also outside of such limits at any point within the borders of the State in which they exist, irrespective of State laws. Also, it is proposed that if by reason of the proximity of a national bank to a State boundary line the ordinary and usual business of the bank is found to extend into an adjacent State, the Federal Reserve Board may permit the establishment of a branch or branches in an adjacent State but not beyond 50 miles from the place where the parent bank is located. No national bank is to be permitted, however, to establish a branch outside of the city, town or village in which it is located unless it has a paid-in and unimpaired capital of not less than \$500,000.

4. *Strengthening of Federal reserve system.*—The Federal reserve system has been seriously impaired of recent years and has wandered far away from its original function. This is the result of many complex conditions. Among these conditions has been the uncertainty of policy in the matter of exercising plainly authorized control by the central supervising authority at Washington and the tendency to submit rather timidly to considerations of immediate expediency. Among the reserve banks themselves there has been a decidedly dangerous drift toward the conversion of the system into a medium for transacting financial rather than commercial business. Further, the establishment of understandings or agreements with foreign central and other banks, and the attempt to carry out plans and measures of a hazardous nature relating to discount rates and problems of technique, have had unfortunate results.

To reform these conditions the committee recommends:

(a) Improvement of membership, and increase of independence of Federal Reserve Board.

(b) Restoration of the requirement that two members of the board shall be men of experience in banking.

(c) Elimination of the Secretary of the Treasury from membership.

(d) Better definition of powers with respect to speculative transactions, particularly as to authority over open market dealings, by establishing a so-called "open market committee" with designated authority.

(e) Definition of powers of the board in the management of foreign affairs.

5. *Protection of bank depositors.*—The great number of banks now in the hands of receivers with assets which are said to aggregate something like \$2,500,000,000 has created a situation in which a very large number of persons are unable to meet their obligations and in which many business houses are embarrassed through inability to get the use of their funds. In the natural course of events it would be a long time before these conditions are very greatly relieved through the liquidation of these closed banks. The continued postponement of liquidation is a very heavy burden upon a large portion of the community. Furthermore, there is and can be no assurance that further failures of considerable amount and number can be avoided. They will from time to time recur even under the best conditions. In order to provide against a repetition of the present painful experience in which a vast sum of assets and purchasing power is "tied up," we have recommended the creation of a Federal liquidation corporation.

The proposal is that this corporation shall have a capital stock contributed by reserve banks to the extent of one-quarter of their present surplus, or a sum of about \$68,500,000, while member banks shall subscribe to the extent of one-fourth of 1 per cent of total net outstanding time and demand deposits or a sum of approximately \$75,000,000, so that the enterprise would have a subscribed capital of about \$143,000,000. In addition, it is proposed that the Government contribute \$125,000,000 to the corporation as paid-in surplus, and the corporation is empowered to issue notes, bonds, debentures, and other such obligations in an amount equal to not more than twice the sum of its capital and the amount appropriated out of Government funds. The sum thus made available would be adequate to deal with any probable failure conditions of the future. If the Government should add to it a proportionate sum for the benefit of State non-member banks it would be able to include their necessities along with those of the system's own members as a subject of treatment. The corporation may be left free to invest its excess funds in the assets of banks that have already failed before it came into existence and it may thus materially help in clearing up the bad situation that has been left as a result of the panic.

6. *Emergency relief.*—Within recent months there has been a very widespread demand for some means of furnishing emergency relief to banks that are in difficult straits. The Federal reserve system was intended to furnish a means of mutual aid and if properly administered was entirely adequate to the necessities of the case. However, with conditions as they stand it is likely that some plan whereby

actual assistance could be furnished to banks which are willing to stand sponsor for one another and thus enable them to clear up danger spots in their own several communities would be helpful. We therefore suggested such a plan as an additional means of strengthening and rendering useful the provisions of the Federal reserve system. The general plan so recommended was founded upon the idea of joint action by clearing houses or groups of banks in different localities designed for the purpose of getting accommodation on their joint unsecured notes at reserve banks up to such amount as might be held prudent; likewise, in exigent cases, relief was provided for individual banks. Such emergency credit should be retired as soon as possible, and therefore it seemed best to provide severe restrictions upon its use and duration. This proposal was lifted from the body of the bill as first prepared and has already been enacted into law. (See Public No. 44, 72d Cong.)

TERMS OF BILL RECOMMENDED

Having thus outlined in general broad terms the main objects of the new legislation, although without endeavoring to do more than suggest the major features of the enactment, we think it best to review the actual provisions of the accompanying measure point by point in order to indicate the precise content of the various sections and their main provisions:

Section 1.—Provides a short title for use in citation, for convenience in discussion, and for certainty of reference.

Section 2.—Defines the language used in the bill and undertakes to make the meaning definite.

Section 3.—Places general restrictions upon the operating policy of Federal reserve banks with the intent to limit them to the extension of credit for ordinary business purposes and to make plain that their resources are not to be used to support speculation. The Reserve Board is given power to oversee and direct such use of the resources of banks.

This section also provides that where two or more member banks are affiliated with the same holding company, they may participate in the nomination and election of directors of the Federal reserve bank in their district through one of the banks to be designated for that purpose by the holding company.

Section 4.—Amends the first paragraph of section 7 of the Federal reserve act so as to eliminate the requirement of the payment of a franchise tax to the United States by Federal reserve banks.

Section 5.—Provides for reports of condition of affiliates of State member banks and for the examination of all such affiliates by examiners selected or approved by the Federal Reserve Board.

The section also subjects State member banks 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. (See sec. 14.)

It is also provided that after three years from the date of enactment of the bill no certificate representing the stock of a State member bank shall represent the stock of any other corporation except a member bank nor be conditioned in any manner whatsoever upon the

ownership, sale, or transfer of a stock certificate of any other corporation except a member bank. This corresponds to the provision in section 16 which is applicable to national banks.

Section 6.—Provides for eliminating the Secretary of the Treasury as a member of the Federal Reserve Board and restores the former requirement that two members of the board shall be men of tested banking experience. It also readjusts the term of members of the board so as to secure as nearly as possible the expiration of terms of members at equal 2-year intervals.

Section 7.—Adds a new section 12A to the Federal reserve act providing for the creation of a Federal open-market committee of 12 members to supervise the open-market operations of the Federal reserve banks and the relations of the Federal reserve system with foreign banks. This in effect legalizes and gives official recognition to the present open-market committee.

This section also adds to the Federal reserve act a new section 12B providing for a Federal liquidating corporation which is given power to liquidate the assets of member banks which have been closed by action of the Comptroller of the Currency, the appropriate State authorities, or by vote of their directors. The management of the corporation is vested in a board of five directors consisting of the Comptroller of the Currency, a member of the Federal Reserve Board, and three persons chosen annually by the governors of the 12 reserve banks. The capitalization of the corporation has already been referred to. (See p. 12.)

Section 8.—Imposes certain limitations upon advances by Federal reserve banks to member banks on their 15-day promissory notes. It is provided that if, during the life of any such advance and despite an official warning of the Federal reserve bank or the Federal Reserve Board to the contrary, any member bank increases its outstanding loans made to members of any organized stock exchange, investment house, or dealer in securities for the purpose of purchasing or carrying stocks, bonds, or other investment securities (except obligations of the United States) the advance to the member bank shall be immediately due and payable and the bank shall be ineligible as a borrower on 15-day paper for such period as the Federal Reserve Board shall determine.

Section 9.—Gives the Federal Reserve Board power to supervise all relations and transactions of any kind entered into by Federal reserve banks with foreign banks or bankers.

Section 10.—Prohibits member banks from acting as the medium or the 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 such securities.

Section 11.—Imposes certain limitations upon loans or extensions of credit by member banks to their affiliates and also limits the amount which such banks may invest in the securities of such affiliates. In general, the maximum limit is 10 per cent of the capital stock and surplus of the member bank in the case of any one affiliate and 20 per cent of the capital stock and surplus in the case of all such affiliates. It is also required that each such loan or extension of credit be secured by collateral having a market value of at least 20 per cent more than the amount of the loan or extension or at least 10

per cent more than the amount of the loan or extension if it is secured by obligations of any State or political subdivision of a State. The provisions do not apply, however, to loans or extensions of credit secured by obligations of the United States, the Federal intermediate credit banks, the Federal land banks, or by paper eligible for rediscount or purchase by Federal reserve banks. Certain types of affiliates are also exempted from the application of the provisions of this section.

Section 12.—Adds a new section 24A to the Federal reserve act which imposes a maximum limit upon the amounts which national banks and State member banks may invest in bank premises or in the stock, bonds, debentures, or other such obligations of a corporation holding the premises of any such bank, and the amounts which such banks may lend to any such corporation.

Section 13.—Provides that all suits of a civil nature 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, shall be deemed to arise under the laws of the United States, and the district courts of the United States are given original jurisdiction of all such suits. It is also provided that a defendant in any such suit may at any time before the trial thereof remove the suit from a State court to a Federal district court in the same manner as now provided by law for the removal of other suits.

Section 14.—Undertakes to broaden the national banking laws by giving national banks all powers possessed by State banks of deposit and discount organized in the States in which such national banks are located, except in so far as they may be prohibited by Federal legislation. National banks are to be permitted to purchase and sell investment securities for their customers to the same extent as heretofore, but hereafter they are to be authorized to purchase and sell such securities for their own account only under such limitations and restrictions as the Comptroller of the Currency may prescribe, subject to certain definite maximum limits as to amount.

Section 15.—Provides for the amount of capital of national banks depending upon the population of the places where they are to be located and also prohibits the admission of a bank into the Federal reserve system unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national bank.

Section 16.—Provides for separating the certificates representing ownership in national banks and ownership in affiliates other than member banks so that in the future they will not be written upon a single certificate of ownership. This corresponds to the provision contained in section 5 of which is applicable to State member banks.

Section 17.—Provides for the voting of national-bank stock held by holding companies under voting permits obtained from the Federal Reserve Board. Certain limitations are imposed upon such holding companies which they must agree to comply with at the time the voting permits are obtained. These limitations relate chiefly to examinations, reports of condition, reserve requirements, and ownership and control by holding companies of organizations engaged in the issuance, underwriting, and distribution of securities. These provisions are also made applicable to holding companies affiliated with State member banks. (See sec. 5.)

Section 18.—Provides for eliminating after a period of three years all affiliations by member banks with corporations, associations, business trusts, or other similar organizations engaged principally in the issuance, underwriting, or distribution of securities.

Section 19.—Authorizes national banks to establish branches at any place within the States in which such banks are located, and also allows the establishment of branches in adjacent States under certain conditions, subject to the approval of the Federal Reserve Board, but not beyond 50 miles from the seat of the parent bank. No such association is to be permitted, however, to establish a branch outside of the city, town, or village in which it is located unless it has a paid-in and unimpaired capital of not less than \$500,000.

Section 20.—Amends the act of November 7, 1918 (relating to the consolidation of national banks), to the extent necessary to carry out the policy provided for in section 19.

Section 21.—Limits the interest that may be charged by a national bank to that which may be charged by local banks in the State where the national bank is located, or to a rate 1 per cent higher than the discount rate on 90-day commercial paper in effect at the Federal reserve bank in the district where the national bank is located, whichever is greater. If no rate is fixed by State law, the maximum rate the national bank may charge is limited to 7 per cent, or 1 per cent in excess of such discount rate, whichever is greater.

Section 22.—Provides that in estimating the total amount of loans which may be made by a national bank to a corporation, the obligations to the bank of all subsidiaries of the corporation in which it owns or controls a majority interest are to be counted.

Section 23.—Provides for reports of condition of all types of affiliates of national banks. This corresponds to the provisions of section 5 which are applicable to affiliates of State member banks.

Section 24.—Relates to the examinations of affiliates of national banks. There is a corresponding provision in section 5 relating to affiliates of State member banks.

Section 25.—Provides for the removal from office of directors and officers of member banks who have continued to violate the banking laws or who have continued unsafe and unsound banking practices after being warned by a Federal reserve agent or the Comptroller of the Currency.

Section 26.—Reserves the right to alter, amend, or repeal the act and provides for separability of its provisions in case any part of the act is held invalid.

The changes which are thus suggested are considered to represent essential matters called for in the interest of immediate improvement of present conditions and the avoidance of financial dangers and there is none of them which can wisely be omitted. All afford solutions that have been indicated by investigators in many quarters as unavoidable and all are thought urgent for the purpose of correcting or eliminating actual hazards.

IN THE SENATE OF THE UNITED STATES

MAY 4 (calendar day, MAY 6), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Proposed by Mr. GEORGE to the bill (S. 4412) to provide for the safer and more effective use of the assets of Federal reserve banks and of national banking associations, to regulate inter-bank control, to prevent the undue diversion of funds into speculative operations, and for other purposes, viz:

- 1 On page 8, line 8, after the word "stock" insert the
- 2 following: "undertaken and consummated after the date of
- 3 the enactment of the Banking Act of 1932."

IN THE SENATE OF THE UNITED STATES

May 4 (calendar day, May 6), 1932

Ordered to lie on the table and to be printed

72ND CONGRESS }
1ST SESSION

S. 4412

AMENDMENT

Proposed by Mr. GEORGE to the bill (S. 4412) 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.

May 4 (calendar day, May 6), 1932
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IN THE SENATE OF THE UNITED STATES

MAY 4 (calendar day, MAY 6), 1932

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AMENDMENT

Proposed by Mr. GEORGE to the bill (S. 4412) to provide for the safer and more effective use of the assets of Federal reserve banks and of national banking associations, to regulate inter-bank control, to prevent the undue diversion of funds into speculative operations, and for other purposes, viz:

- 1 On page 38, line 24, after the word "directors" insert
- 2 the following: "and in deciding all questions at meetings
- 3 of shareholders."

72^d CONGRESS }
1st Session

S. 4412

AMENDMENT

Proposed by Mr. George to the bill (S. 4412) 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.

May 4 (calendar day, May 6), 1932

Ordered to lie on the table and to be printed

IN THE SENATE OF THE UNITED STATES

May 4 (calendar day, May 6), 1932

Ordered to lie on the table and to be printed

S. 4412

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IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to be printed

MAY 9 (calendar day, MAY 11), 1932

Modified and ordered to be printed

AMENDMENT

Proposed by Mr. VANDENBERG to the bill (S. 4412) 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, viz:

1 On page 45, line 8, after the period insert the follow-
2 ing: "Except in a city, town, or village where there is no
3 national or State bank regularly transacting customary
4 banking business, no such association shall establish a
5 branch except by taking over an existing unit bank or an
6 affiliate of such association."

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1ST SESSION }
S. 4412

AMENDMENT

S. 4412

72d CONGRESS
1st Session

IN THE SENATE OF THE UNITED STATES

May 9 (calendar day, May 10), 1932

Ordered to be printed

May 9 (calendar day, May 11), 1932

Modified and ordered to be printed

AMENDMENT

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1st Session } S. 4412

AMENDMENT

Proposed by Mr. VANDENBERG to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932

Ordered to be printed

May 9 (calendar day, May 11), 1932

Modified and ordered to be printed

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.

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72^D CONGRESS
1ST SESSION

S. 4412

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. COPELAND to the bill (S. 4412) 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, viz: On page 27, after line 19 insert the following new section:

1 “SEC. 7A. Section 13 of the Federal Reserve Act, as
2 amended, is amended by inserting between the third and
3 fourth paragraphs thereof the following new paragraph:

4 ““ Upon the indorsement of any of its member banks
5 situated in a municipality of not more than five thousand
6 inhabitants, which shall be deemed a waiver of demand,
7 notice, and protest by such bank as to its own indorsement

1 exclusively, and subject to regulations and limitations to be
 2 prescribed by the Federal Reserve Board, any Federal
 3 reserve bank may discount or purchase notes secured by
 4 first mortgage on improved real estate, including improved
 5 farm lands, located in the vicinity of the municipality in
 6 which the indorsing bank is located, upon such terms and at
 7 such rate of discount as the reserve bank shall determine.'”

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 1st Session } S. 4412

AMENDMENT

Intended to be proposed by Mr. CORLEAND to the bill (S. 4412) 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.

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Ordered to lie on the table and to be printed

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1ST SESSION

S. 4412

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENTS

Intended to be proposed by Mr. BLAINE to the bill (S. 4412) 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, viz:

1 On page 52, line 1, before the colon, insert "if a
2 national bank is involved, and shall be immediately removed
3 from office if a State member bank is involved."

4 On page 52, line 6, after the period, insert the follow-
5 ing new sentence: "If any State member bank upon which
6 a copy of any such order has been served fails to remove
7 from office immediately the director or officer involved,
8 the Federal Reserve Board may, in its discretion, require

1 such bank to surrender its stock in the Federal reserve
 2 bank and to forfeit all rights and privileges of member-
 3 ship in the Federal reserve system as provided in section 9
 4 of the Federal Reserve Act, as amended."

5 On page 52, lines 6 and 7, strike out "such director
 6 or officer" and insert in lieu thereof "director or officer
 7 of a national bank."

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 1st Session }
S. 4412

AMENDMENTS

Intended to be proposed by Mr. BRAINE to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932

Ordered to lie on the table and to be printed

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 43, omit section 18.

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1ST SESSION } S. 4412

AMENDMENT

Intended to be proposed by Mr. Keay to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932
Ordered to lie on the table and to be printed

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 35, line 2, omit the word "association" and
- 2 substitute therefor the words "member bank."

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AMENDMENT

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1ST SESSION } S. 4412

AMENDMENT

Intended to be proposed by Mr. KRAV to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932
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MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Mr. KRAV to the bill (S. 4412) 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.

and the word "association" and "member bank."

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 46, line 15, omit the numeral "7" and sub-
2 stitute therefor the numeral "10."

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1ST SESSION } S. 4412

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932

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1ST SESSION

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May 9 (calendar day, May 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

By Mr. KEAN to the bill (S. 4412) to

provide for the safer and more effective use of the assets of

Federal reserve banks and of national banking associa-

tions, to regulate interbank control, to prevent the undue

diversion of funds into speculative operations, and for other

purposes.

Ordered to lie on the table and to be printed

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Ordered to lie on the table and to be printed

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 2, line 23, omit "of its executive committee."

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1st Session } **S. 4412**

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932

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IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 8 omit lines 11 to 19, inclusive.

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1ST SESSION } **S. 4412**

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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.

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1ST SESSION

IN THE SENATE OF THE UNITED STATES

May 9 (calendar day, May 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Mr. KEAN to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932

Ordered to lie on the table and to be printed

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

1 On page 45, line 22, omit the word "State."

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AMENDMENT

Intended to be proposed by Mr. KEAY to the bill (S. 4412) 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:

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MAY 9 (calendar day, MAY 10), 1932

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AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 36, line 4, after the word "corporation"
- 2 insert: "Nothing in this paragraph shall be construed to
- 3 require any member bank to dispose of any investment
- 4 security or stock lawfully held by it on the day of the enact-
- 5 ment of the Banking Act of 1932."

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AMENDMENT

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1st Session

IN THE SENATE OF THE UNITED STATES

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1st Session } S. 4412

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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.

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Ordered to lie on the table and to be printed

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 49, line 5, after the word "Currency" insert
- 2 the following: "shall bring to the attention of the Federal
- 3 reserve bank and with their approval."

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AMENDMENT

Intended to be proposed by Mr. KEAR to the bill (S. 4412) 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.

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IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 34, lines 21, 22, 23, 24, and 25, and on page
2 35, lines 1 and 2, omit the following: "The business of
3 dealing in investment securities by the association shall be
4 limited to purchasing and selling such securities without
5 recourse, solely upon the order, and for the account of,
6 customers, and in no case for its own account, and the
7 association shall not underwrite any issue of securities:
8 *Provided,*".

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1ST SESSION } **S. 4412**

AMENDMENT

Intended to be proposed by Mr. KEAR to the bill (S. 4412) 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.

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IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 3, line 11, omit the word "such" and sub-
- 2 stitute therefor the words "any one."

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May 9 (calendar day, May 10), 1932

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AMENDMENT

Intended to be proposed by Mr. Keay to the bill (S. 4412) 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.

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MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 3, line 2, omit "of a member bank" and
- 2 substitute therefor "of any one member bank."

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AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Mr. Kean to the bill (S. 4412) 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.

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 3, line 9, omit the word "such" and substi-
- 2 tute therefor the words "any one."

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AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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.

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MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 38, lines 6 and 7, omit "that shares of its
2 own stock held by a national bank as trustee shall not be
3 voted," and substitute therefor "shares of its own bank held
4 by a national bank as trustee amounting to more than 25
5 per centum of the capital shall not be voted, and no stock
6 shall be held by a national bank as trustee and voted for a
7 period of more than five years."

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AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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.

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AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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.

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MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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.

viz:

1 On page 37, omit section 16.

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AMENDMENT

Intended to be proposed by Mr. KEAR to the bill (S. 4412) 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.

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AMENDMENT

Intended to be proposed by Mr. KEAR to the bill (S. 4412) 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.

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AMENDMENT

Intended to be proposed by Mr. DICKINSON to the bill (S. 4412) 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, viz:

- 1 On page 44, line 24, following the word "situated"
- 2 and before the colon insert the following: "if such estab-
- 3 lishment and operation are at the time permitted to State
- 4 banks by the law of the State in question."

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AMENDMENT

Intended to be proposed by Mr. DICKINSON to the bill (S. 4412) 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.

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AMENDMENT

Intended to be proposed by Mr. NORBECK to the bill (S. 4412) 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, viz:

- 1 Strike out section 19.

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AMENDMENT

Intended to be proposed by Mr. NORRICK to the bill (S. 4412) 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.

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(Intended to be proposed by Mr. Norrick)

AMENDMENT

Intended to be proposed by Mr. Norrick to the bill (S. 4412) 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.

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AMENDMENT

Proposed by Mr. VANDENBERG to the bill (S. 4412) 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, viz:

- 1 On page 45, at the end of subsection C of section 19,
2 add the following: "*Provided*, That only existing unit or
3 affiliated banks shall become branch banks, except that this
4 proviso shall not apply in any city, town, or village where
5 no National or State banking corporation is regularly trans-
6 acting customary banking business."

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AMENDMENT

Proposed by Mr. VANDENBERG to the bill (S. 4412) 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.

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AMENDMENT

Intended to be proposed by Mr. COPELAND to the bill (S. 4412) 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, viz: On page 45, after line 23, insert the following new section:

- 1 "SEC. 20A. Section 5169 of the Revised Statutes, as
- 2 amended, is amended by adding at the end thereof the
- 3 following new sentence: ' No such certificate shall be given
- 4 to any such association unless the comptroller shall first have
- 5 received from the State banking authority of the State in
- 6 which such association is to engage in the business of bank-
- 7 ing a statement setting forth that commercial, industrial,

1 and agricultural credit demands in the community in which
 2 it is proposed to conduct such banking business are sufficient
 3 to warrant the establishment of such association and that in
 4 the opinion of such State banking authority there is no other
 5 valid objection to such establishment.'”

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AMENDMENT

Intended to be proposed by Mr. COPELAND to the bill (S. 4412) 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.

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On page 45, after line 28, insert the following new section:

SEC. 207. Section 5100 of the Revised Statutes, as amended, is amended by adding at the end thereof the following new sentence: "No such certificate shall be given to any such association unless the comptroller shall first have received from the State banking authority of the State in which such association is to engage in the business of banking a statement setting forth that commercial, industrial,

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AMENDMENT

Intended to be proposed by Mr. COPELAND to the bill (S. 4412) 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, viz:

- 1 On page 44, line 24, after the word "situated" insert
- 2 a comma and the following: "if such establishment and
- 3 operation are at the time permitted to State banks by the
- 4 law of the State in question."

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S. 4412

AMENDMENT

Intended to be proposed by Mr. COPELAND to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932

Ordered to lie on the table and to be printed

S. 4412

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. METCALF to the bill (S. 4412) 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, viz:

1 On page 34, line 4, strike out all of section 14.

72^d CONGRESS }
1st SESSION } S. 4412

AMENDMENT

Intended to be proposed by Mr. MERCER to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932
Ordered to lie on the table and to be printed

S. 4412

72^d CONGRESS
1st Session

IN THE SENATE OF THE UNITED STATES

May 9 (calendar day, May 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. MERCER to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932
Ordered to lie on the table and to be printed

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. METCALF to the bill (S. 4412) 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, viz:

- 1 On page 8, beginning with line 5, strike out all through
- 2 line 10.

72^d CONGRESS }
1ST Session } **S. 4412**

AMENDMENT

Intended to be proposed by Mr. MERRITT to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932

Ordered to lie on the table and to be printed

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. METCALF to the bill (S. 4412) 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, viz:

- 1 On page 4, line 20, strike out the word "whenever"
2 and insert in lieu thereof the following: "It shall be the
3 duty of the directors of every Federal reserve bank to from
4 time to time inquire into the uses of credit facilities by their
5 members, and to report any misuse of such credit facilities
6 to the Federal Reserve Board through the medium of the
7 chairman of the Federal reserve bank. Whenever, upon
8 receiving such report,"

AMENDMENT

Intended to be proposed by Mr. MERCOUR to the bill (S. 4412) 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.

May 9 (calendar day, May 10), 1932

Ordered to lie on the table and to be printed

72^D CONGRESS
1ST SESSION

S. 4412

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENTS

Intended to be proposed by Mr. METCALF to the bill (S. 4412) 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, viz:

1 On page 15, beginning with line 6, strike out all
2 through line 18 on page 18, and insert in lieu thereof the
3 following paragraphs:

4 “(c) The corporation shall have a capital stock of
5 \$125,000,000, all of which shall be subscribed by the United
6 States of America and payment for which shall be subject to
7 call in whole or in part by the board of directors of the
8 corporation.

1 "There is hereby authorized to be appropriated out of
2 any money in the Treasury not otherwise appropriated the
3 sum of \$125,000,000 for the purpose of making payments
4 upon such subscription. Receipts for payments by the
5 United States for or on account of such stock shall be issued
6 by the corporation to the Secretary of the Treasury and shall
7 be evidence of the stock ownership of the United States.

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

12 On page 23, line 11, change the word "sum" to the
13 word "amount."

14 On page 23, lines 12 and 13, strike out the words "and
15 the amount authorized to be appropriated pursuant to para-
16 graph (c) of this section."

AMENDMENTS

AMENDMENTS

of amendments proposed by the
intended to be introduced by Mr. [Name]
the bill (S. 4113) to provide for
and more effective use of the
Federal reserve banks and the
national banking associations to
improve the management of
other business.

AMENDMENTS

AMENDMENTS

Intended to be proposed by Mr. METCALF to the bill (S. 4412) 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.

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

S. 4412

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On pages 16, 17, and 18, omit subdivisions (e), (f),
- 2 and (g) of section 12B.

S. 4412

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On pages 16, 17, and 18, omit subdivisions (e), (f),
- 2 and (g) of section 12B.

Governor's office

IN THE SENATE OF THE UNITED STATES

MAY 9 (calendar day, MAY 10), 1932

Ordered to lie on the table and to be printed.

AMENDMENT

Intended to be proposed by Mr. KEAN to the bill (S. 4412) 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, viz:

- 1 On page 8, line 10 after the word "amended" insert
- 2 the following: " : *Provided*, That nothing in this paragraph
- 3 shall be construed to require any bank or trust company to
- 4 dispose of investment securities or stocks lawfully held by
- 5 it on the date of the enactment of the Banking Act of 1932."

7

SUGGESTED CHANGES IN S. 4412.

1. Affiliates. Allow five instead of three years for divorce. Pages 8, 37, 42, 43.
Make examinations and reports discretionary. Pages 6, 39, 47, 48.
2. Certain Powers of National and State Member Banks. Omit all of Section 14
(pages 34-36) which further restricts the powers of national banks to
deal in investment securities and especially the portion (page 34, lines
15-21) authorizing national banks to exercise all powers granted by State
law to State banks.
If Section 14 is omitted, omit corresponding portion of 5(b)
relating to State member banks. Page 8, lines 5-10.
3. Open Market Committee. Omit all proposed sections 12A; or, if this is
not done limit to operations "for system account." Pages 13, 14.
4. Advances to Member Banks. Omit all of Section 8 and substitute Board's
recommendations extending maturity to 90 days when secured by elig-
ible paper. Pages 27-28.
5. Federal Liquidating Corporation. Strike out provisions for stock sub-
scriptions by member banks and Federal reserve banks and substitute
Board's suggestion of \$100,000,000 from Treasury, i. e., strike out
subdivisions (c) to (g), pages 15-18; substitute Board's paragraph (c);
and make change indicated on page 23.
6. Publication of Examination Reports. Strike out lines 5-13 on page 49.

important in the interest of practical administration. The changes necessary to accomplish this purpose are as follows:

Page 6, lines 14 and 15, strike out the words "not less than three reports during each year" and substitute the words "such reports as the Board shall deem necessary". Beginning in line 19, on page 6, strike out all after the word "reports" down to and including the word "shown" in line 2 on page 7.

Page 39, lines 10 and 11, strike out the clause "on dates identical with those fixed for the examination of banks with which it is affiliated".

Page 47, line 9, strike out the words "not less than three reports during each year in such form" and substitute the words "such reports". In lines 14 to 17, inclusive, strike out the words "as of dates identical with those for which the Comptroller shall during such year require the reports of the condition of the association". In lines 19 to 23, inclusive, strike out the entire sentence beginning with the word "Each" and ending with the word "shown".

Page 48, line 20, strike out the word "include" and substitute therefor the words "have power to make".

2. Certain Powers of National and State Member Banks.

In its unanimous report the Federal Reserve Board recommended the omission of all of section 15 of S. 4115, which is contained in S. 4412 in modified form as section 14. The modifications

Therefore, it is recommended that section 14 and the relevant portion of section 5(b), contained in lines 5 to 10, inclusive, on page 8, be stricken out entirely.

3. Open Market Committee.

All of the proposed "Section 12(A)" as set forth in section 7 of the bill should be eliminated for the reasons set forth in the recommendations of the Federal Reserve Board. If, however, the provisions relating to the Open Market Committee are to be retained in the bill they should be modified by inserting on page 13, in line 16, after the word "operations" the words "for system account" in order to avoid conferring upon this committee functions which it does not now possess with respect to the operations of individual banks, the exercise of which would hamper unnecessarily the ordinary handling of open market purchases by individual banks under the authority of existing law.

4. Advances to Member Banks.

For the reasons contained in the Board's recommendations of March 29, 1932, the restrictions which would be imposed by section 8 upon advances by Federal reserve banks to member banks should be eliminated, and there should be substituted the section recommended by the Board on page 33A of its report which would enable Federal reserve banks to make advances to member banks on their promissory notes for periods up to ninety days when secured by paper eligible for rediscount or for purchase by Federal reserve banks.

be substituted. In this connection, on page 23, in lines 12 and 13, the words "and the amount authorized to be appropriated pursuant to paragraph (c) of this section" should be stricken out and the word "stock" substituted therefor.

6. Publication of Examination Reports.

It is believed that careful consideration should be given to the elimination of the last two sentences of section 24(a) of the bill, which appear in lines 5 to 13, inclusive, on page 49, and which would authorize the Comptroller of the Currency to publish reports of examinations of member banks and their affiliates in certain circumstances. This is a drastic power which is inconsistent with the confidential nature of reports of examination and which, if exercised, would have a damaging effect upon the banks involved and their borrowers, and perhaps upon general banking conditions. Under other sections of the bill adequate powers are given to the Comptroller of the Currency to bring about compliance with his requirements, including particularly the power to remove officers and directors.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7287

November 7, 1932.

SUBJECT: Glass Bill, S. 4412:

Dear Sir:

The Federal Reserve Board has previously forwarded to you copies of the so-called Glass Bill, S. 4412, which was reported to the Senate by the Banking and Currency Committee of that body on April 18, 1932, as well as copies of the accompanying majority and minority reports of the Committee. You have also been furnished with copies of the hearings on the bill which were held before the Senate Committee in March when the bill was under consideration as S. 4115. The Board's report to the committee was printed in connection with Governor Meyer's testimony in these hearings and was also included in the Federal Reserve Bulletin for April, 1932. There are inclosed herewith two copies of a memorandum (X-7139) which presents a comparison of the more important features of S. 4412 and S. 4115 with the changes recommended by the Federal Reserve Board.

As the bill may be taken up again at the forthcoming

session of Congress, the Federal Reserve Board will be glad to receive any suggestions regarding its provisions which you desire to submit for the Board's consideration, together with your reasons for such suggestions.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO ALL CHAIRMEN AND GOVERNORS.

PROVISIONS OF THIS BILL COMPARED WITH S. 4115
WITH CHANGES RECOMMENDED BY FEDERAL RE-
SERVE BOARD.

There is set forth below a comparison of the more important features of S. 4412, which was introduced in the Senate and reported by the Committee on Banking and Currency on April 18, 1932, and S. 4115 with the changes recommended by the Federal Reserve Board in its letter to Senator Norbeck of March 29, 1932.

S. 4115 is referred to herein as the "old bill" and S. 4412 as the "new bill". Section numbers and page numbers refer to the sections and pages of the new bill, unless otherwise indicated. Certain sections of the old bill which have been omitted entirely from the new bill are treated at the end of this memorandum.

SECTION 1.

Title. - (p. 1)

This section merely provides that the short title of the act shall be the "Banking Act of 1932."

SECTION 2.

Definitions. - (pp. 1, 2 and 3)

The definitions contained in section 2, including those of an affiliate and of a holding company affiliate, are, in the new bill, made applicable not only to the provisions of this act but to any pro-

visions of law amended by this act.

The several classes of institutions defined as affiliates in the old bill are subdivided in the new bill so as to make a distinction between "affiliates" generally and "holding company affiliates".

With these exceptions, the definitions contained in the new bill are substantially in the same form as in the old bill with the changes recommended by the Board.

SECTION 3.

(a) Control of Federal reserve bank credit by Federal Reserve Board. (pp.3,4)

On this subject the recommendation of the Federal Reserve Board is adopted in Section 3 (a) of the new bill.

(b) Voting by groups or chains in elections of Federal reserve bank directors. (p. 5)

Section 4 of the old bill prohibited banks that belong to a group or chain from voting for Federal reserve bank directors, and the Board recommended the omission of the provision. The new bill provides (in Section 3(b) 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.

SECTION 4.

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

The old bill provided (in Section 5) that net earnings of Federal reserve banks after payment of dividends and expenses should be paid to the Federal Liquidating Corporation. The Board recommended that no

changes be made in the present method of the distribution of earnings of Federal reserve banks but 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 Liquidating Corporation. The new bill provides (in Section 4) 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.

SECTION 5.

(a) Branches of State member banks. (pp. 5, 6)

In connection with Section 21 of the old bill, the Board recommended a new provision to the effect that nothing contained in the bill 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. This provision as recommended is contained in Section 5(a) of the new bill.

(The provisions of the new bill with reference to branches of national banks are contained in Section 19.)

(b) Reports of affiliates of State member banks. (pp. 6, 7)

The old bill (in section 6) required each affiliate of a State member bank to make three complete reports of condition annually through the president of the bank to the Federal Reserve Board. The Board's recommendation was that such reports be required only when deemed necessary by the Federal Reserve Board. The new bill provides in Section 5(b) that a State member bank shall obtain from each of its affiliates and furnish to the Federal reserve bank and to the Federal Reserve Board not less than

three reports of condition each year 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.

(Substantially the same provisions are contained in Section 23 of the new bill with reference to reports of affiliates of national banks.)

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

Section 5(b) of the new 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 the old bill; and the Board recommended that Section 15 of the old bill, which restricted dealings in investment securities by national banks, be omitted entirely.

(The provisions on this subject regarding national banks are in Section 14 of the new bill.)

Divorce of stock of State member banks from stock of other corporations. (p. 8)

Section 5(b) of the new bill contains a provision to the effect that, after three 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 cer-

tificate of such a bank be conditioned upon the ownership or transfer of a certificate of stock of another corporation, except a member bank.

A similar provision regarding stock of national banks is found in Section 16 of the new bill.

The old bill contained no such provision regarding the stock of State member banks; but Section 17 contained a similar provision regarding the stock of national banks, which would have become effective immediately, and the Board recommended that it be retained but that it be made effective after three years.

Right of an affiliate of a State member bank to vote stock held by it in such bank. (pp. 8 and 9)

Section 5(b) of the new bill provides that the holding company affiliates of State member banks shall be subject to the provisions of Section 5144 of the Revised Statutes (which contains the conditions under which affiliates may vote stock held in national banks) and also provides for the forfeiture of the membership of a State member bank, in the discretion of the Federal Reserve Board, where a voting permit of a holding company affiliate of such a bank is revoked. Under the new bill, therefore, substantially the same provisions are applicable to holding company affiliates of national banks and holding company affiliates of State member banks.

The Board recommended that the provisions of the old bill with reference to the conditions under which holding company affiliates of national banks might obtain permits to vote stock owned by them in such

banks be revised in a number of particulars and also recommended that substantially the same provisions as those suggested for national banks be made applicable to affiliates of State member banks, suggesting a new section of the bill for this purpose. The provisions applicable to affiliates of national banks in this connection are contained in Section 17 of the new bill and are discussed hereafter with reference to that section; but it may be stated briefly at this point that the recommendations of the Board regarding affiliates of national banks have not been adopted in the new bill.

Examination of affiliates of State member banks. (p. 9)

The new bill in Section 5(b) requires such examinations of affiliates of State member 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 the bank; the expense of such examinations may, in the discretion of the Federal Reserve Board, be assessed against the bank examined, (instead of against the affiliates as recommended by the Board); and, in the event of the refusal of the affiliate to give information requested or to permit such an examination, or in the event of the failure of the bank to pay the expenses of such an examination, the membership of any State member bank affiliated with such an affiliate may be forfeited in the discretion of the Federal Reserve Board.

The old bill contained a provision (in Section 28) requiring examinations of affiliates of a State member bank. The Federal Reserve Board recommended that such examinations be authorized to be made only when deemed necessary.

(Provisions of a somewhat similar character are contained in Section

24 of the new bill with reference to examinations of affiliates of national banks.)

SECTION 6.

Membership of the Federal Reserve Board. (pp. 10-12)

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.

SECTION 7.

Open Market Committee. (pp. 13, 14)

Section 7 of the new bill adds a new Section 12A to the Federal Reserve Act, which provides for a Federal Open Market Committee along the lines of the existing Open Market Policy Conference.

The Board recommended that the similar provisions of the old bill (Section 10) on this subject be stricken out, and that there be substituted certain amendments to Section 14 of the Federal Reserve Act clarifying the Board's powers over open market operations and containing in revised form one of the provisions of the old bill. The Board's recommendations were not adopted in the new bill.

The chief differences between the new bill and the old bill are: In lieu of the statement in the old bill that no Federal reserve bank may engage in open market operations "except after approval and authorization

by the Committee", there is a provision in the new bill that no Federal reserve bank shall engage in such operations "except in accordance with resolutions adopted by the Committee and approved by the Federal Reserve Board". This applies to all purchases and sales on the open market under Section 14 of the Federal Reserve Act, whether for system account or for the account of an individual Federal reserve bank. The old bill provided that the Governor of the Federal Reserve Board should be a member of the committee in addition to the twelve members appointed by the directors of the Federal reserve banks, but in the new bill the Governor is not made a member of the committee. The new bill also omits the provision of the old bill that the Board's annual report to Congress should include a review of the decisions of the committee with an explanation thereof.

Federal Liquidating Corporation. (pp. 14-27).

Section 7 of the new bill also contains the proposed new Section 12B of the Federal Reserve Act providing for a Federal Liquidating Corporation to expedite the payment of dividends to depositors and creditors of closed member banks. The provisions of the new bill on this subject are a compromise between the provisions of the old bill and the Board's proposed substitute.

The old bill provided (in Section 10) for the creation of a Federal Liquidating Corporation for the purpose of purchasing and liquidating the assets of closed member banks. The Board recommended a number of changes in the provisions with reference to this proposed corporation, and in the new bill some of these changes have been adopted and some have been omitted. Without setting forth all of the detailed differences between the old bill, the recommendations of the Board, and the new bill,

there are stated below the more important of these differences.

In accordance with the recommendation of the Federal Reserve Board, the new bill provides for a board of directors of five members, (the Comptroller of the Currency, a member of the Federal Reserve Board, and three members selected annually by the Governors of the Federal reserve banks), instead of a board of fourteen members (the Comptroller of the Currency and the 13 members of the Federal Open Market Committee) as provided in the old bill.

The old bill provided for two classes of capital stock of the corporation: class A stock, to be subscribed by member banks in an amount equal to one-half of one per cent of their deposits, and class B stock, to be subscribed by Federal reserve banks in an amount equal to one-fourth of their surplus; with an additional provision for annual subscriptions by Federal reserve banks in amounts equal to one-fourth of the annual increase in their surplus accounts. The Board recommended that the capital stock consist of \$100,000,000 to be subscribed by the United States. The new bill provides for the appropriation by the United States to the corporation of the sum of \$125,000,000, but also provides for two classes of stock: class A stock, to be subscribed by member banks in an amount equal to one-fourth of one per cent of their deposits, and class B stock to be subscribed by Federal reserve banks in an amount equal to one-fourth of their surplus. One-half of each class of stock is apparently to be paid in upon the organization of the corporation, and the remainder is subject to call. The new bill, however, omits the provision for additional annual subscriptions by the Federal reserve banks.

The old bill authorized the Liquidating Corporation to purchase

and liquidate the assets of closed nonmember State banks and to make loans to such banks, for a limited number of years; and also authorized an appropriation of \$200,000,000 from the United States Treasury for this purpose. In accordance with the recommendation of the Board, this provision is omitted from the new bill and its provisions are limited to member banks.

The old bill provided for the issuance of debentures by the Liquidating Corporation in amounts aggregating not more than four times its capital. The Federal Reserve Board recommended that debentures be authorized up to twice the amount of capital and that Federal reserve banks be given authority to purchase these debentures up to one-fourth of their surplus. The new bill authorizes the issuance of debentures in an amount aggregating not more than twice the amount of the capital of the corporation and the \$125,000,000 appropriation from the Treasury of the United States. The provision recommended by the Board, however, that such debentures be guaranteed by the United States is omitted from the new bill.

The new bill (p. 20, lines 24, 25; p. 21, lines 1-4) contains in a different form the provision for a valuation committee, the elimination of which was recommended by the Board. Loans on and purchases of, assets of closed member banks are to be made "on the basis of" valuations of such assets made by this committee, which includes the receiver, a representative of the insolvent bank, and a third member selected by those two, but does not include any representative of the corporation.

A number of provisions recommended by the Federal Reserve Board of a prohibitive or penal character in connection with the proposed Federal Liquidating Corporation and its operations have been adopted in the new bill and certain unnecessary steps regarding the organization of the corporation and increases and decreases in its capital have been eliminated.

SECTION 8Loans on member banks' collateral notes (pp. 27-28)

The old bill (Section 11) provided that the rate at which a Federal Reserve Bank might make advances to its member banks on their 15-day promissory notes should be at a rate 1% higher than the rediscount rate, and also provided that if a member bank, while indebted to a Federal reserve bank on such a 15-day note and despite a warning of the Federal reserve bank or the Federal Reserve Board, should increase its loans made for the purpose of purchasing or carrying investment securities (except obligations of the United States), the note should be immediately due and payable and the member bank should be ineligible to borrow on such 15-day notes for such periods as the Federal Reserve Board might determine. The old bill also provided that the Federal Reserve Board might suspend the provisions of law with reference to loans to member banks on their 15-day notes for periods of 90 days.

In lieu of these provisions of the old bill, the Federal Reserve Board recommended an amendment increasing the maximum maturity of advances to member banks on their promissory notes secured by eligible paper from 15 to 90 days.

Section 8 of the new bill (pp. 27,28) does not adopt the recommendation of the Board on this point and contains substantially the same provisions as those in the old bill, except that there have been omitted the discriminatory rate of 1% on such 15-day advances to member banks and the provisions for the suspension by the Board of the provisions of law on this subject.

SECTION 9 .Foreign transactions of Federal reserve banks (p. 29)

The Federal Reserve Board suggested certain changes in the provisions of Section 12 of the old bill with reference to the supervision of the Board over foreign transactions of Federal reserve banks, and the more important of these changes have been adopted in the corresponding provisions contained in Section 9 of the new bill. The provisions of the new bill on this subject, which are substantially those of the old bill with the Board's suggested changes, provide that all relationships and transactions by Federal reserve banks with foreign bankers shall be subject to special supervision and regulation by the Federal Reserve Board; that negotiations with foreign bankers shall not be conducted without the permission of the Board; that the Board may be represented in any such negotiations; and that a full report of all such negotiations shall be made to the Board in writing.

SECTION 10 .Reserves of member banks and restrictions on dealings in "Federal Funds" (p. 30).

Section 13 of the old bill contained a complete revision of Section 19 of the Federal Reserve Act with reference to the reserves required of member banks. Chief among its provisions was the requirement that the percentages of reserve against time deposits be increased over a period of years to the same percentages as those required against demand deposits. Another important provision of the old bill prohibited the transfer of balances with a Federal reserve bank from one bank to

another without the authority of the Federal Reserve Board and except upon payment of a fee for the privilege. The Board was also authorized to suspend all dealings in reserve balances for such periods as it might deem best.

The Federal Reserve Board recommended, in lieu of the provisions of the old bill on this subject, a revision of section 19 of the Federal Reserve Act in accordance with the recommendations of the System Committee on Reserves with some modifications; and recommended the omission of the limitations on the use of balances standing to the credit of member banks on the books of the Federal Reserve Banks.

The new bill (in Section 10) omits entirely any revision or amendment of the reserve requirements of member banks, and also omits the restrictions of the old bill on the transfer of balances in Federal reserve banks.

Member banks as mediums in making loans on collateral. (p. 30)

In accordance with a recommendation of the Federal Reserve Board, Section 10 of the new bill adds a new paragraph to Section 19 of the Federal Reserve Act forbidding a member bank to act as the medium or agent of any non-banking corporation or individual in making loans on the security of stocks, bonds and other investment securities to brokers or dealers in such securities, and providing a fine for violation thereof.

The old bill contained a provision for a similar purpose but in different form.

SECTION 11.

Loans to or investments in stock of affiliates. (pp. 30-32)

On this subject the new bill (in Section 11) adopts substantially the recommendations of the Federal Reserve Board and provides that no member banks shall make any loan or extension of credit to, or purchase

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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 ten per cent of the capital stock and surplus of the member bank, or if, in the case of all such affiliates, the aggregate amount thereof will exceed twenty per cent of the capital stock and surplus of such member bank. Each loan or extension of credit to an affiliate shall be secured by collateral, in the form of stocks, bonds, debentures or other such obligations, having a market value of at least twenty per cent more than the amount of the loan or extension of credit or at least ten per cent more than the amount thereof if secured by State or municipal obligations. Loans or extensions of credit secured by obligations of the United States, Federal intermediate credit banks, Federal land banks or paper eligible for rediscount by Federal reserve banks are excepted from the requirement as to marginal collateral (but the suggestions of the Federal Reserve Board that those secured by obligations of the Reconstruction Finance Corporation be also excepted was not adopted). The provisions of this section do not apply to an affiliate engaged solely in holding the bank premises of the affiliated member bank or conducting a safe-deposit business or the business of an agricultural credit corporation or live stock loan company, or to an affiliate in the capital stock of which a national bank is authorized to invest under Section 25 of the Federal Reserve Act, or an affiliate organized under Section 25(a) of the Federal Reserve Act.

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The old bill (in Section 9) contained some of the provisions of the new bill on this subject, but the limitations prescribed were applicable only as to affiliates engaged in buying and selling stocks, bonds, real estate or real estate mortgages or organized to hold title to any such property. The old bill did not include the twenty percent limit in the case of all affiliates, on the aggregate of loans, investments and advances, nor did it include any of the above-mentioned exceptions to the limitations prescribed. The old bill required marginal collateral of twenty per cent in all cases except where the security for the loan consisted of paper eligible for rediscount or obligations eligible for investment by savings banks.

SECTION 12.

Real estate loans and investments in bank premises (pp. 32, 33)

The old bill (in Section 14) contained a number of provisions with reference to real estate loans and investments of member banks. It would have required a bank to revise the valuations on which such loans were based at the time of each examination and also, in effect, at the time of each report of its condition. The limitations on the amount of such loans would have been changed, and all unsecured loans whose eventual safety depends upon the value of real estate would have been classified as real estate loans. Time depositors would have been given a preferred claim on all real estate loans and other assets acquired under this section of the old bill.

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The Federal Reserve Board recommended that these provisions of the old bill be omitted and that there be substituted therefor 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 the stock or obligations of, or in loans to, any corporation owning or holding its bank premises a sum exceeding the amount of the capital stock of such bank.

The new bill omits the provisions of the old bill in accordance with the recommendation of the Board, and adopts in substance the provision suggested by the Board, although 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 13.

Jurisdiction of Federal Courts over cases involving foreign banking transactions. (pp. 33,34)

This provision, which was not contained in the old bill and which was not the subject of a recommendation by the Federal Reserve Board, confers 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, either directly or through the agency, ownership or control of branches or of local institutions in foreign countries.

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It is understood that the rule in the Federal courts with reference to the valuation of foreign currency in transactions of this kind is more favorable to banks than in the State courts, and it is apparently for this reason that the bill contains the above provision.

SECTION 14.

National banks granted all powers of State banks. (p. 34)

In the old bill (Section 15) national banks were granted power to engage in all forms of banking business permitted by the laws of the State in which they are 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 recommended that this provision be omitted; but it is contained in the new bill in substantially the same form in which it appeared in the old bill.

Dealings in investment securities (pp. 34-36)

The old bill (in section 15) contained a number of provisions with reference to dealings in investment securities by national banks and the Board recommended that all these provisions be omitted. They are, however, repeated in the new bill, with certain changes and additions, and with the provision (in Section 4) that the same provisions shall be applicable to State member banks. The new 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

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and for the account of customers, except that member banks may purchase and hold for their 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 hereafter purchased 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 hereafter purchased and held shall not exceed 15% of the capital of the bank and 25 per cent of its surplus. (The latter limitation in the old bill was stated in ambiguous terms and might have been construed to apply to the aggregate amount of all investment securities held by the bank.)

No member bank may purchase or hold 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 capital and surplus in the stock of safe deposit companies.

These limitations do not apply to obligations of the United States, to general obligations of any State or any subdivision thereof, or to obligations issued under the authority of the Federal Farm Loan Act.

The definition of investment securities contained in existing law would apparently have been stricken out by the old bill and the Comptroller of the Currency given unlimited powers to prescribe his own definition, except that stocks could not be included. The new bill, however, in effect restores the definition contained in the existing law.

SECTION 15

(a) Capital required for organization of national banks. (pp. 36, 37)

The old bill (in section 16) contained an amendment to Section 5138 of the Revised Statutes to provide that no national bank may be organized with a capital of less than \$50,000, except that a national bank may be formed, in the discretion of the Comptroller of the Currency, for the purpose of succeeding to the business of an existing bank with a capital of not less than \$25,000. The old bill also eliminated the existing requirement that the organization of national banks with a capital of less than \$100,000 shall be subject to the approval of the Secretary of the Treasury.

The Board recommended the elimination of the exception in the old bill which permitted the formation of national banks with a capital of less than \$50,000 to take over the business of an existing bank. This recommendation was adopted and with this change the provisions of the old bill on this subject are repeated in the new bill.

(b) Capital requirements of State member banks. (p. 37)

Section 15(b) of the new bill contains a provision, not appearing in the old bill 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% of the amount required for the organization of a national bank in the place in which it is situated. The capital required 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 16.

Shares of stock of \$100 each.

The old bill (in Section 17) would have amended section 5139 of the Revised Statutes so as to provide that the capital stock of national banks should be divided into shares of \$100 each, thus repealing the provision of the present law for shares of a lesser amount. In accordance with the recommendation of the Federal Reserve Board, however, this provision is omitted in the new bill.

Divorce of stock of national bank from stock of other corporations. (p. 37)

The new bill provides (in Section 16) that, after three years from the date of its passage, no certificate of stock of a national

bank shall represent the stock of any other corporation except a member bank, nor shall the 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.

Substantially the same provision was included in the old bill (in Section 17), except that the prohibition apparently was to take effect immediately and no exception was made as to the stock of another member bank. The Board recommended that this provision be made effective three years after enactment and, as stated, the new bill includes this change.

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

SECTION 17.

Shares of its own stock held by a national bank as trustee. (p. 38)

The old bill (in Section 19) provided that no shareholders of national banks who shall become such through nominal transfer or ownership on behalf of another shall vote at meetings of shareholders of such banks. The Board recommended that shares of its own stock held by any national bank as trustee shall not be voted. The Board's recommendation was adopted in the new bill, and the provision of the old bill was not retained.

Right of an affiliate of a national bank to vote stock held by it in
such bank. (pp. 38-43)

The old bill (in Sections 19 and 20) contained provisions requiring an affiliate of a national bank to obtain a voting permit from the Federal Reserve Board before voting any stock held by it in such national bank. Such a voting permit might be issued only upon compliance by the holding company affiliate with a number of detailed provisions. The Federal Reserve Board recommended a number of changes in these provisions of the old bill, but the Board's recommendations on this subject have not been adopted in the new bill.

The salient features of the Board's recommendations on this subject were as follows: Shares owned or controlled by an 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 shall apply for membership in the Federal Reserve System and if not admitted such affiliate shall divest itself of all interest in such bank. Each such affiliate shall hold readily marketable assets, other than bank stocks, 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 credit shall be given for contributions made during the preceding three years to banks owned or controlled by the affiliate. Failure to comply with the agreement is ground for termination thereof by the Comptroller. No national bank shall make any loan to, or on

the security of the stock of, or be the purchaser of the stock of, any affiliate which owns or controls such bank, unless necessary to prevent loss upon a debt previously contracted in good faith, and stock so acquired shall be disposed of within two years. Officers and employees of affiliates which have entered into an agreement with the Comptroller of the Currency, are made subject to certain criminal provisions, and a penalty is provided for voting the stock held by affiliates, unless such an agreement is in effect.

The provisions of the new bill on this subject, which follow along the lines of the old bill with certain changes and additions and which do not contain the provisions as recommended by the Board, are in brief form set forth in the following paragraphs. (As hereinbefore explained under Section 5, the provisions of the new bill on this subject are applicable also to holding company affiliates of State member banks.)

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 January 1, 1935, 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 the 25% requirement is reached. (The last of the requirements of this paragraph was recommended by the Board.)

(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 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; that, if it has such an interest or participation it will, within three 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 18.

Relationships between Member Banks and Securities Dealers or Corporations making collateral loans. (pp. 43, 44.)

The old bill (in section 18) provided that, after January 1, 1933, no director, officer or employee of a member bank should be an officer or employee of a corporation or association engaged primarily in the securities business and no such officer, director or employee of a member bank should be a director, officer or employee of a corporation making loans secured by collateral to any one except its own subsidiaries. The old bill also provided that no member bank should have correspondent relationships with associations or corporations of the kind mentioned.

The Board recommended that these provisions be omitted and suggested substitute provisions.

The new bill provides, in substantial accordance with the substitute provisions recommended by the Board, that, after three years, no member bank shall be affiliated with a securities corporation in the manner described in Section 2(b) of the bill (where the word "affiliate" is defined so as not to include holding company affiliates). Violations 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 violations continue 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.

SECTION 19.

Branches of National banks. (pp. 44,45).

The old bill (in Section 21) provided for State-wide branches of national banks in States where the State law permits State banks to have branches, with a proviso that, if the usual business of the bank extends into an adjacent State, the Federal Reserve Board may permit the establishment of a branch by the bank in such State not more than fifty miles from its head office. In order to have branches outside of the city of its head office, a capital of \$500,000 was required. Furthermore, the aggregate capital of a bank and its branches was required to equal the capital required for an equal number of national banks situated where the bank and its branches are respectively located.

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The Federal Reserve Board suggested that, if these provisions were to be retained, a change be made which would eliminate the limitations of the present law on the number of branches which may be established in cities of less than 100,000 inhabitants, and the limitation providing that no branch may be established in a city of less than 25,000 inhabitants. This recommendation of the Board was adopted in the new bill.

The provisions of the new bill on this subject are substantially the same as those contained in the old bill, with the change recommended by the Board; except that the establishment of State-wide branches is not limited to those States in which the State law permits State banks to have branches.

(The provisions of the new bill with reference to branches of State member banks are contained in Section 5(a).)

SECTION 20.

Consolidations of national banks with other banks in the same State. (p. 45)

The provisions of the Act providing for the consolidation of two or more national banks or for the consolidation of State banks with national banks would be amended by the new bill so as to permit such consolidations to take place between banks located anywhere in the same State. This section was contained in the same form in the old bill (in Section 22). No suggestion was made by the Board on this point.

SECTION 21.Rate of interest on loans. (pp. 45,46)

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 the State law (or 7% where the State law fixes no limit), or (2) a rate 1% in excess of the Federal reserve bank discount rate, whichever may be the greater.

The provision of the new bill on this subject is the same as that contained in the old bill (Section 23) with a minor change suggested by the Board.

SECTION 22.Limitations on loans to affiliated corporations. (pp.46,47)

The new bill provides an amendment to the first paragraph of Section 5200 of the Revised Statutes, which provides that in computing the amount which a corporation can borrow from a national bank, the corporation and all of its subsidiaries in which such corporation owns or controls a majority interest would be treated as a single borrower.

This provision has been adopted from the old bill (Section 25(a)) with a clarifying amendment suggested by the Board.

In accordance with the Board's recommendations, the following provisions of section 25 of the old bill are omitted from the new bill:

- (1) That the amount which any national bank might lend to any broker or member of any stock exchange or similar corporation or any finance company, securities company, investment trust or other similar organization would be limited to 10% of the capital and surplus of such national bank.
- (2) that no national bank would be permitted to lend to "an affiliate" an amount exceeding 10% of the capital and surplus of such

national bank or exceeding the capital stock of such affiliate, whichever may be the smaller.

(3) that the aggregate amount which all affiliates of a national bank could borrow from such national bank (including repurchase agreements) would be limited to 10% of the national bank's capital and surplus except that loans secured by Government bonds or by bonds issued by the State in which such bank is situated or by any political subdivision of such State would be excluded altogether from the limitations of Section 5200 of the Revised Statutes, if actually owned by the borrower.

(4) that no national bank might establish or capitalize an affiliate through cash or stock dividend declarations made from its surplus or from undivided profits; and "within three years after this section as amended takes effect", every affiliate should be capitalized through the sale of its own stock which should be paid for in cash in the same manner as required in the case of a national bank.

(5) that for a period of three years, no affiliate of a national bank might hold, or lend upon, more than 10% of the shares of the capital stock of the parent institution.

SECTION 23.Reports of affiliates of national banks (pp. 47, 48).

The old bill (in Section 27) required each affiliate of a national bank to make three complete reports of condition annually through the president of the bank to the Comptroller of the Currency, and also to make such special reports as the Comptroller might require. The Board's recommendation was that such reports be required only when deemed necessary.

The new bill provides that every 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 of condition each year and such additional reports as the Comptroller may deem necessary. 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 to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank. The bank is subject to a penalty for failure to render such reports.

Provisions of the old bill requiring an affiliate under certain stated conditions to publish its entire portfolio are omitted from the new bill.

(Substantially the same provisions are contained in Section 5(b) of the new bill with reference to reports of affiliates of State member banks).

SECTION 24.Examinations of affiliates of national banks. (pp. 48-50)

The new bill requires such examinations of affiliates (other than member banks) of a national bank 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 authorizes the forfeiture of the franchise of the bank in the event of refusal of the affiliate to give information or to permit such examination.

Publication of the examination report of a national bank or of an affiliate is authorized if the bank or affiliate fails to comply with recommendations of the Comptroller of the Currency based on such examinations.

The old bill contained a provision (in Section 28) requiring examinations of affiliates of national banks and member banks. The Federal Reserve Board recommended that this section provide for examination of affiliates of national banks only (as examinations of affiliates of State member banks are provided for elsewhere in the bill) and that such examinations be authorized to be made only when deemed necessary.

In accordance with certain other suggestions of the Federal Reserve Board on this subject, the new bill has added certain provisions to authorize examiners making an examination of an affiliate of a national bank to administer oaths and to examine officers and employees under oath; to provide that the expenses of such examination may be assessed against the affiliate and, if not paid by the affiliate, then against

the bank; and to provide a penalty of \$100 per day to be paid by the bank for refusal of the affiliate to give information required or to permit such an examination.

While examinations of affiliates of national banks in the old bill were limited to a period of three years after its passage, the new bill, in accordance with the Board's suggestion on this point, contains no limit of this kind.

(Provisions of a somewhat similar character with reference to examinations of affiliates of State member banks are contained in Section 5(b) of the new bill.)

SECTION 25.

Removal of bank directors or officers from office. (pp. 50-52)

On this subject, the new bill follows substantially the recommendation of the Board and provides a procedure for the removal 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 (as to a national bank) or the Federal Reserve Agent of his district (as to a State member bank) to discontinue such violations or such practices. After a hearing by the Federal Reserve Board establishing such facts, the Board may order the removal of such director or officer and a copy of such order shall be served upon him and upon the bank with which he is connected. Such order and findings of fact may not be made public or disclosed except

to such director or officer and the directors of his bank, "otherwise than in connection with proceedings for a violation of this section." Participation by such officer or director in the management of such bank after having been removed is punishable by fine or imprisonment.

The old bill placed the power of removal in a committee consisting of the Governor of the Federal Reserve Board, the Comptroller of the Currency and the Federal Reserve Agent, instead of in the Federal Reserve Board as provided in the new bill. The old bill did not contain the provision prohibiting the making public or disclosing the order of removal or findings of fact.

SECTION 26.

Saving clause and reservation of right to amend. (p. 52).

Section 26 contains the usual provisions (which were also in the old bill) reserving the right to alter, amend or repeal the act and limiting decisions holding parts of the act to be invalid, to the specific sections dealt with in such decisions.

SECTIONS OF OLD BILL ENTIRELY OMITTED FROM NEW BILL.

In addition to a number of other provisions of the old bill which have been omitted from the new bill but which have been treated above in connection with certain related topics contained in the corresponding sections of the new bill, (such as the provisions regarding reserves and regarding real estate loans and investments of member banks), there have also been omitted from the new bill the following provisions, each of which constituted an entire separate section of the old bill.

Limitation upon amount of loans on collateral security by member banks.

Section 8 of the old bill authorized the Federal Reserve Board to fix the percentage of the capital and surplus of a member bank which might be represented by loans on collateral security. The purpose of this section apparently was to prevent the undue use of bank loans for speculation in securities, which is fully covered in Section 3. In accordance with the recommendation of the Board, therefore, the provisions of Section 8 of the old bill have been omitted from the new bill.

Interest on deposits.

Section 24 of the old bill would have limited the rate of interest which national and State member banks would be permitted to pay on deposits as follows: (1) interest on balances due to banks would have been limited to 2 1/2% or "the current rate of discount of the Federal reserve bank", whichever is the smaller; (2) on all other deposit balances, the rate would have been limited to one-half the rate of interest which national banks are permitted to charge on loans.

In accordance with a recommendation of the Federal Reserve Board this section is omitted from the new bill.

Limitations on collateral loans to single borrowers.

Section 26 of the old bill provided that no member bank shall lend to any individual or corporation "upon collateral security" an amount exceeding 10% of its own capital and surplus, or an amount exceeding the percentage fixed by the Federal Reserve Board, whichever is the smaller.

In accordance with the recommendation of the Federal Reserve Board this section is omitted from the new bill (as was also Section 8 of the old bill which also provided for limiting collateral loans.)

AMENDMENT PROPOSED BY SENATOR BRATTON, N.M. TO
GLASS BANKING BILL, S. 4412, AND APPROVED BY SENATE
JANUARY 21, 1933.

Strike out all of lines 20 to 25 inclusive on page 44
and all of lines 1 to 8 inclusive on page 45 and insert in
lieu thereof the following:

"(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 1,000,000, and which have no cities located therein with
a population exceeding 100,000, the capital shall be not less
than \$250,000."

AMENDMENT PROPOSED BY SENATOR GLASS, VA. TO
GLASS BANKING BILL, S. 4412, AND APPROVED BY SENATE
JANUARY 23, 1933.

On page 15, strike out all of line 6 to 13, inclusive,
and insert in lieu thereof the following:

"(c) There is hereby authorized to be appropriated,
out of any money in the Treasury not otherwise appropriated, the
sum of \$125,000,000, which shall be available for payment by the
Secretary of the Treasury for capital stock of the corporation
in an equal amount, which shall be subscribed for by him on be-
half of the United States. Payments upon such subscription shall
be subject to call in whole or in part by the board of directors
of the corporation. Such stock shall be in addition to the
amount of capital stock required to be subscribed for by
Federal reserve banks and member banks as hereinafter provided
and the United States shall be entitled to the payment of divi-
dends on such stock to the same extent as member banks are en-
titled 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 Secretary of the Treasury and shall be evidence of the stock
ownership of the United States. "

AMENDMENTS APPROVED ON JANUARY 24th.

- Page 36, line 6, strike out the word "general";
- Page 37, line 17, strike out the word "three"
and insert in lieu thereof the word "five";
- Page 43, line 18, strike out the word "three"
and insert in lieu thereof the word "five";
- Page 8, line 11, strike out the word "three"
and insert in lieu thereof the word "five";
- Page 46, line 10, strike out the words "of issue";
- Page 35, line 7, strike out the word "hereafter"
and after the word "purchased" insert the
words "after this section as amended takes
effect";
- Page 35, line 14, strike out the word "hereafter"
and after the word "purchased" insert the
words "after this section as amended takes
effect";
- Page 36, line 3, strike out the words "or holding",
and
- Page 38, line 24, after the word "directors" insert
the words "and in deciding all questions at
meetings of shareholders".

AMENDMENTS TO THE GLASS BANKING BILL
APPROVED JANUARY 25th.

Page 2, line 23, strike out the words "a majority of the members of its executive committee or".

Page 3, line 2, strike out words "of a member bank", and insert in lieu thereof the words "of any one member bank."

Page 3, line 9, strike out the word "such" and insert in lieu thereof the words "any one."

Page 3, line 11, strike out word "such" and insert in lieu thereof the words "any one".

Page 40, line 3, strike out the date "January 1, 1935", and insert in lieu thereof the words "five years after the enactment of the banking act of 1933".

Page 40, line 19, strike out the date "January 1, 1935", and insert in lieu thereof the words "five years after the enactment of the banking act of 1933".

Page 38, line 25, before the period insert the words "or authorizing the trustee or trustees holding the stock of the benefit of its shareholders so to vote the same."

Page 8, strike out all of lines 20, 21 and 22 and the word "amended" in line 23 and insert in lieu thereof the words "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."

Page 23, line 11, strike out the word "sum" and insert in lieu thereof the word "amount."

Page 23, strike out beginning with the word "and", in line 12, down to and including the word "section" in line 13.

Page 40, line 5, strike out the words "the lien" and insert in lieu thereof the words "any lien."

Page 40, line 16, before figure "25" insert the word "such".

Page 1, line 4, strike out "1932" and insert in lieu thereof "1933".

Page 50, after line 18, insert a new section as follows:

"Sec. --. 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 cent 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."

Page 30, after line 13, insert the following new section:

"Sec. 10a. 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 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."

Page 48, line 11, strike out word "three" and insert in lieu thereof the word "five".

Page 36, at the end of line 15 insert the words "This Section shall take effect five years after the date of the approval of this act."

January 27, 1933.

SUMMARY OF AMENDMENTS TO GLASS BILL ADOPTED ON FLOOR OF SENATE.

Section regarding branches of national banks amended so as to require approval of Comptroller of Currency instead of Federal Reserve Board, so as to permit such branches only in States where the State laws expressly authorize State banks to establish such branches and so as to permit national banks with a capital of \$250,000 (instead of \$500,000) to establish out of town branches in States having a population of less than 1,000,000 and having no cities with a population exceeding 100,000. (p. 44, line 20 through p. 45, line 8-- January 21)

Section regarding Liquidating Corporation changed so as to provide for issuance of stock to Treasury Department and for payment of dividends to Treasury at same rate as to member banks. Also corresponding change in provision regarding amount of obligations which may be issued by Liquidating Corporation. (p. 15, lines 6-13; p. 23, lines 11 and 13-- January 23, 25).

Various provisions regarding affiliates, holding company affiliates, security affiliates and dealings in investment securities made effective 5 years, instead of 3 years, after date of enactment. (p. 8, line 11; p. 36, line 15; p. 37, line 17; p. 40, lines 3 and 19; p. 42, line 11; p. 43, line 18; --January 24, 25.)

Provision regarding holding company affiliates of member banks changed so as to require State member banks to obtain agreements from their holding company affiliates subjecting them to provisions of

law regarding holding company affiliates of national banks - in lieu of law subjecting them directly to such provisions without such agreements. (p. 8, lines 20-23--January 25).

Amendments to section regarding holding company affiliates of national banks so as to require them to obtain permits in order to vote on any matter decided at meetings of shareholders of member banks or to authorize trustees holding stock for the benefit of the shareholders to vote the same, as well as requiring such permits in order to vote at elections of directors. (p. 38, lines 24 and 25--January 24 and 25)

Change in phraseology of provision regarding total amount of any one issue of investment securities which may be purchased hereafter by any national bank. (p. 35, lines 7, 14--January 24)

Amendment striking out language preventing national banks from holding stocks heretofore acquired. (p. 36, line 3--January 24)

Striking out word "general" modifying word "obligation" so as to permit national banks to deal in special as well as general obligations of States and political subdivisions thereof. (p. 36, line 6--January 24).

New section added forbidding executive officers of member banks to borrow from or become indebted to their own banks and requiring them to report to the chairman of the board of directors of their own banks if they borrow from or become indebted to any other bank or if their relatives borrow from their own banks. (p. 30 between lines 13 and 14--January 25).

New section authorizing Comptroller of Currency to permit reopening of closed national banks when the owners of at least 85% deposits and other unsecured claims consent in writing to permit banks to retain deposits for a reasonable period to be prescribed by the Comptroller. (p. 50, between lines 18 and 19--January 25).

Technical amendment permitting national banks to charge rate of interest allowed by State law for any State bank instead of that allowed by State law only for "banks of issue". (p. 46, line 10----January 24)

Slight changes in definitions of "affiliate" and "holding company affiliates". (p. 2, lines 23 and 24; p. 3, lines 2, 9 and 11----January 25)

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72D CONGRESS
2D SESSION

S. 4412

IN THE HOUSE OF REPRESENTATIVES

JANUARY 30, 1933

Referred to the Committee on Banking and Currency

AN ACT

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.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That the short title of this Act shall be the "Banking Act
4 of 1933."

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

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

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

8 (1) Of which a member bank, directly or indirectly,
9 owns or controls either a majority of the voting shares or
10 more than 50 per centum of the number of shares voted for
11 the election of its directors, trustees, or other persons exer-
12 cising similar functions at the preceding election, or con-
13 trols in any manner the election of a majority of its directors,
14 trustees, or other persons exercising similar functions; or

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

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

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

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

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

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

16 "Said board of directors shall administer the affairs
17 of said bank fairly and impartially and without discrimina-
18 tion in favor of or against any member bank or banks and
19 may, subject to the provisions of law and the orders of
20 the Federal Reserve Board, extend to each member bank
21 such discounts, advancements, and accommodations as may
22 be safely and reasonably made with due regard for the
23 claims and demands of other member banks, the mainte-
24 nance of sound credit conditions, and the accommodation of
25 commerce, industry, and agriculture. The Federal Reserve

1 Board may prescribe regulations further defining within the
 2 limitations of this Act the conditions under which discounts,
 3 advancements, and accommodations may be extended to
 4 member banks. Each Federal reserve bank shall keep
 5 itself informed of the general character and amount of the
 6 loans and investments of its member banks with a view to
 7 ascertaining whether undue use is being made of bank credit
 8 for the speculative carrying of or trading in securities,
 9 real estate, or commodities, or for any other purpose incon-
 10 sistent with the maintenance of sound credit conditions; and,
 11 in determining whether to grant or refuse advances, redis-
 12 counts or other credit accommodations, the Federal reserve
 13 bank shall give consideration to such information. The
 14 chairman of the Federal reserve bank shall report to the
 15 Federal Reserve Board any such undue use of bank credit
 16 by any member bank, together with his recommendation.
 17 Whenever, in the judgment of the Federal Reserve Board,
 18 any member bank is making such undue use of bank credit,
 19 the board may, in its discretion, after reasonable notice and
 20 an opportunity for a hearing, suspend such bank from the use
 21 of the credit facilities of the Federal reserve system and may
 22 terminate such suspension or may renew it from time to
 23 time.”

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

1 Federal Reserve Board shall classify” is amended by insert-
 2 ing before the period at the end thereof a colon and the
 3 following: “*Provided*, That whenever any two or more
 4 member banks within the same Federal reserve district are
 5 affiliated with the same holding company affiliate, participa-
 6 tion by such member banks in any such nomination or
 7 election shall be confined to one of such banks, which may
 8 be designated for the purpose by such holding company
 9 affiliate.”

10 SEC. 4. The first paragraph of section 7 of the Federal
 11 Reserve Act, as amended, is amended, effective July 1,
 12 1932, to read as follows:

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

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

1 any foreign country, on the same terms and conditions and
 2 subject to the same limitations and restrictions as are appli-
 3 cable to the establishment of branches by national banks."

4 (b) Section 9 of the Federal Reserve Act, as amended,
 5 is further amended by adding at the end thereof the follow-
 6 ing new paragraphs:

7 "Each bank admitted to membership under this section
 8 shall obtain from each of its affiliates other than member
 9 banks and furnish to the Federal reserve bank of its district
 10 and to the Federal Reserve Board not less than three reports
 11 during each year. Such reports shall be in such form as
 12 the Federal Reserve Board may prescribe, shall be verified
 13 by the oath or affirmation of the president or such other
 14 officer as may be designated by the board of directors of such
 15 affiliate to verify such reports, and shall disclose the infor-
 16 mation hereinafter provided for as of dates identical
 17 with those fixed by the Federal Reserve Board for
 18 reports of the condition of the affiliated member bank.
 19 Each such report of an affiliate shall be transmitted
 20 as herein provided at the same time as the corresponding
 21 report of the affiliated member bank, except that the Fed-
 22 eral Reserve Board may, in its discretion, extend such time
 23 for good cause shown. Each such report shall contain such
 24 information as in the judgment of the Federal Reserve
 25 Board shall be necessary to disclose fully the relations

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

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

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

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

7 "After five years from the date of the enactment of
 8 the Banking Act of 1933, no certificate representing the
 9 stock of any State member bank shall represent the stock
 10 of any other corporation, except a member bank, nor shall
 11 the ownership, sale, or transfer of any certificate represent-
 12 ing the stock of any such bank be conditioned in any manner
 13 whatsoever upon the ownership, sale, or transfer of a cer-
 14 tificate representing the stock of any other corporation,
 15 except a member bank.

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

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

13 "In connection with examinations of State member
 14 banks, examiners selected or approved by the Federal
 15 Reserve Board shall make such examinations of the affairs
 16 of all affiliates of such banks as shall be necessary to disclose
 17 fully the relations between such banks and their affiliates
 18 and the effect of such relations upon the affairs of such banks.
 19 The expense of examination of affiliates of any State member
 20 bank may, in the discretion of the Federal Reserve Board,
 21 be assessed against such bank and, when so assessed, shall
 22 be paid by such bank. In the event of the refusal to give
 23 any information requested in the course of the examination
 24 of any such affiliate, or in the event of the refusal to permit
 25 such examination, or in the event of the refusal to pay

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

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

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

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

7 (b) The second paragraph of section 10 of the Fed-
 8 eral Reserve Act, as amended, is amended to read as follows:

9 "The Comptroller of the Currency shall be ineligible
 10 during the time he is in office and for two years thereafter
 11 to hold any office, position, or employment in any member
 12 bank. The appointive members of the Federal Reserve
 13 Board shall be ineligible during the time they are in office
 14 and for two years thereafter to hold any office, position, or
 15 employment in any member bank, except that this restric-
 16 tion shall not apply to a member who has served the full
 17 term for which he was appointed. Upon the expiration of
 18 the term of any appointive member of the Federal Reserve
 19 Board in office when this paragraph as amended takes effect,
 20 the President shall fix the term of the successor to such
 21 member at not to exceed twelve years, as designated by the
 22 President at the time of nomination, but in such manner as
 23 to provide for the expiration of the term of not more than one
 24 appointive member in any two-year period, and thereafter
 25 each appointive member shall hold office for a term of twelve

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

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

11 "The principal offices of the board shall be in the Dis-
 12 trict of Columbia. At meetings of the board the governor
 13 shall preside as chairman, and, in his absence, the vice gov-
 14 ernor shall preside. In the absence of both the governor
 15 and the vice governor, the board shall elect a member to act
 16 as chairman pro tempore. No member of the Federal Re-
 17 serve Board shall be an officer or director of any bank, bank-
 18 ing institution, trust company, or Federal reserve bank or
 19 hold stock in any bank, banking institution, or trust com-
 20 pany; and before entering upon his duties as a member of
 21 the Federal Reserve Board he shall certify under oath that
 22 he has complied with this requirement and such certification
 23 shall be filed with the secretary of the board. Whenever a
 24 vacancy shall occur, other than by expiration of term, among
 25 the six members of the Federal Reserve Board appointed by

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

6 SEC. 7. The Federal Reserve Act, as amended, is
 7 amended by inserting between sections 12 and 13 thereof
 8 the following new sections:

9 "SEC. 12A. (a) There is hereby created a Federal
 10 Open Market Committee (hereinafter referred to as the
 11 committee), which shall consist of as many members as
 12 there are Federal reserve districts. Each Federal reserve
 13 bank by its board of directors shall annually select one
 14 member of said committee. The meetings of said com-
 15 mittee shall be held at Washington, District of Columbia,
 16 at least four times each year, upon the call of the governor
 17 of the Federal Reserve Board or at the request of any
 18 three members of the committee, and, in the discretion of
 19 the board, may be attended by the members of the board.

20 "(b) No Federal reserve bank shall engage in open
 21 market operations under section 14 of this Act except in
 22 accordance with resolutions adopted by the committee and
 23 approved by the Federal Reserve Board as hereinafter pro-
 24 vided. The committee shall consider, adopt, and transmit
 25 to the several Federal reserve banks resolutions relating to

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

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

11 “(d) If any Federal reserve bank shall decide not to
12 participate in open market operations recommended and ap-
13 proved as provided in paragraph (b) hereof, it shall file
14 with the chairman of the committee within thirty days a
15 notice of its decision, and transmit a copy thereof to the
16 Federal Reserve Board.

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

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

10 “(c) There is hereby authorized to be appropriated,
11 out of any money in the Treasury not otherwise appropriated,
12 the sum of \$125,000,000, which shall be available for pay-
13 ment by the Secretary of the Treasury for capital stock of
14 the corporation in an equal amount, which shall be sub-
15 scribed for by him on behalf of the United States. Pay-
16 ments upon such subscription shall be subject to call in whole
17 or in part by the board of directors of the corporation. Such
18 stock shall be in addition to the amount of capital stock
19 required to be subscribed for by Federal reserve banks and
20 member banks as hereinafter provided and the United States
21 shall be entitled to the payment of dividends on such stock
22 to the same extent as member banks are entitled to such pay-
23 ment on the class A stock of the corporation held by them.
24 Receipts for payments by the United States for or on account
25 of such stock shall be issued by the corporation to the Secre-

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

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

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

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

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

1 of directors of the corporation. A bank admitted to mem-
 2 bership in the Federal reserve system at any time after the
 3 organization of the corporation shall be required to sub-
 4 scribe for an amount of class A capital stock equal to
 5 one-fourth of 1 per centum of the time and demand
 6 deposits of the applicant bank as of the date of such ad-
 7 mission, paying therefor its par value plus one-half of 1
 8 per centum a month from the period of the last dividend on
 9 the class A stock of the corporation. When a member bank
 10 reduces its time and demand deposits it shall surrender, not
 11 later than the 1st day of January thereafter, a proportionate
 12 amount of its holdings in the capital stock of the corporation,
 13 and when a member bank voluntarily liquidates it shall sur-
 14 render all its holdings of the capital stock of the corporation
 15 and be released from its stock subscription not previously
 16 called. The shares so surrendered shall be canceled and
 17 the member bank shall receive in payment therefor, under
 18 regulations to be prescribed by the Federal Reserve Board,
 19 a sum equal to its cash-paid subscriptions on the shares
 20 surrendered and its proportionate share of dividends not to
 21 exceed one-half of 1 per centum a month, from the period
 22 of the last dividend on such stock, less any liability of such
 23 member bank to the corporation.

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

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

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

11 “First. To adopt and use a corporate seal.

12 “Second. To have succession until dissolved by an
 13 Act of Congress.

14 “Third. To make contracts.

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

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

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

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

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

11 "(i) The board of directors shall administer the
12 affairs of the corporation fairly and impartially and without
13 discrimination in favor of or against any member bank or
14 banks and may, subject to the provisions of law, extend to
15 each national bank which is closed by action of the Com-
16 ptroller of the Currency, or by vote of its directors, and to
17 each State member bank which is closed by action of the
18 appropriate State authorities, or by vote of its directors, such
19 accommodations as may be safely and reasonably made
20 with due regard for the claims and demands of other mem-
21 ber banks. The board of directors of the corporation shall
22 determine and prescribe the manner in which its obligations
23 shall be incurred and its expenses allowed and paid. The
24 corporation shall be entitled to the free use of the United
25 States mails in the same manner as the executive depart-

1 ments of the Government. The corporation with the con-
2 sent of any Federal reserve bank or of any board, commis-
3 sion, independent establishment, or executive department
4 of the Government, including any field service thereof, may
5 avail itself of the use of information, services, and facilities
6 thereof in carrying out the provisions of this section.

7 "(j) Whenever any member bank shall have been
8 closed by action of its board of directors, the Comptroller of
9 the Currency, or the appropriate State authority, as the case
10 may be, the receiver may tender the assets of such bank to
11 the corporation which may purchase the same, or make a loan
12 on the security thereof, in whole or in part, as in the deter-
13 mination of its board of directors the prompt and economical
14 liquidation of the assets of such bank may require, on the
15 basis of such valuations as may be agreed upon by a valua-
16 tion committee of three members consisting of the receiver
17 of such bank, a member to be named by the board of direc-
18 tors of such bank, and a person to be chosen by the receiver
19 and the member named by such board of directors. It
20 shall be the duty of the corporation to proceed to
21 realize as rapidly as possible, having due regard to the
22 condition of credit in the district in which such bank
23 is located, upon any assets so purchased, and if the net
24 amount realized from the sale or other disposition of such
25 assets exceeds the sum paid therefor, the corporation shall

1 make an additional payment to the receiver of the bank
 2 equal to the amount of such excess, if any, after deducting a
 3 liquidation fee of 8 per centum of the sum thus realized; but
 4 any income derived by the corporation from such assets shall
 5 be the property of the corporation. Money of the corpora-
 6 tion not otherwise employed shall be invested in securities
 7 of the Government of the United States, except that for
 8 temporary periods, in the discretion of the board of directors,
 9 funds of the corporation may be deposited subject to check
 10 in any Federal reserve bank or with the Treasurer of the
 11 United States. When designated for that purpose by the
 12 Secretary of the Treasury, the corporation shall be a deposi-
 13 tary of public moneys, except receipts from customs, under
 14 such regulations as may be prescribed by the said Secretary,
 15 and may also be employed as a financial agent of the Govern-
 16 ment. It shall perform all such reasonable duties as deposi-
 17 tary of public moneys and financial agent of the Government
 18 as may be required of it.

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

1 Currency, or by vote of their directors, or to State member
 2 banks closed by action of the appropriate State authorities,
 3 or by vote of their directors, or from entering into negotia-
 4 tions to secure the reopening of such banks.

5 “(l) Receivers or liquidators of member banks which
 6 are now or may hereafter become insolvent or suspended
 7 shall be entitled to offer the assets of such banks for sale to
 8 the corporation or as security for loans from the corpora-
 9 tion, upon receiving permission from the appropriate State
 10 authority in accordance with express provision of State law
 11 in the case of State member banks, or from the Comptroller
 12 of the Currency in the case of national banks. The pro-
 13 ceeds of every such sale or loan shall be utilized for the same
 14 purposes and in the same manner as other funds realized
 15 from the liquidation of the assets of such banks. The Comp-
 16 troller of the Currency may, in his discretion, pay dividends
 17 on proved claims at any time after the expiration of the
 18 period of advertisement made pursuant to section 5235 of
 19 the Revised Statutes, and no liability shall attach to the
 20 Comptroller of the Currency or to the receiver of any
 21 national bank by reason of any such payment for failure to
 22 pay dividends to a claimant whose claim is not proved at
 23 the time of any such payment.

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

1 aggregating not more than twice the amount of its capital, its
 2 notes, debentures, bonds, or other such obligations, to be re-
 3 deemed at the option of the corporation before maturity in
 4 such manner as may be stipulated in such obligations, and to
 5 bear such rate or rates of interest, and to mature at such time or
 6 times as may be determined by the corporation: *Provided*, That
 7 the corporation may sell on a discount basis short-term obli-
 8 gations payable at maturity without interest. The notes,
 9 debentures, bonds, and other such obligations of the corpora-
 10 tion may be secured by assets of the corporation in such
 11 manner as shall be prescribed by its board of directors. Such
 12 obligations may be offered for sale at such price or prices
 13 as the corporation may determine.

14 “(n) All notes, debentures, bonds, or other such obliga-
 15 tions issued by the corporation shall be exempt, both as to
 16 principal and interest, from all taxation (except estate and
 17 inheritance taxes) now or hereafter imposed by the United
 18 States, by any Territory, dependency, or possession thereof,
 19 or by any State, county, municipality, or local taxing author-
 20 ity. The corporation, including its franchise, its capital,
 21 reserves, and surplus, and its income, shall be exempt from
 22 all taxation now or hereafter imposed by the United States,
 23 by any Territory, dependency, or possession thereof, or by
 24 any State, county, municipality, or local taxing authority,
 25 except that any real property of the corporation shall be

1 subject to State, Territorial, county, municipal, or local tax-
 2 ation to the same extent according to its value as other real
 3 property is taxed.

4 “(o) In order that the corporation may be supplied
 5 with such forms of notes, debentures, bonds, or other such
 6 obligations as it may need for issuance under this Act, the
 7 Secretary of the Treasury is authorized to prepare such
 8 forms as shall be suitable and approved by the corporation,
 9 to be held in the Treasury subject to delivery, upon order
 10 of the corporation. The engraved plates, dies, bed pieces,
 11 and other material executed in connection therewith shall
 12 remain in the custody of the Secretary of the Treasury.
 13 The corporation shall reimburse the Secretary of the Treas-
 14 ury for any expenses incurred in the preparation, custody,
 15 and delivery of such notes, debentures, bonds, or other
 16 such obligations.

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

20 “(q) Whoever, for the purpose of obtaining any loan
 21 from the corporation, or any extension or renewal thereof,
 22 or the acceptance, release, or substitution of security there-
 23 for, or for the purpose of inducing the corporation to pur-
 24 chase any assets, or for the purpose of influencing in any
 25 way the action of the corporation under this section, makes

1 any statement, knowing it to be false, or wilfully overvalues
 2 any security, shall be punished by a fine of not more than
 3 \$5,000 or by imprisonment for not more than two years, or
 4 both.

5 “(r) Whoever (1) falsely makes, forges, or counter-
 6 feits any obligation or coupon, in imitation of or purporting
 7 to be an obligation or coupon issued by the corporation, or
 8 (2) passes, utters, or publishes, or attempts to pass, utter,
 9 or publish, any false, forged, or counterfeited obligation or
 10 coupon purporting to have been issued by the corporation,
 11 knowing the same to be false, forged, or counterfeited, or
 12 (3) falsely alters any obligation or coupon issued or pur-
 13 porting to have been issued by the corporation, or (4)
 14 passes, utters, or publishes, or attempts to pass, utter, or
 15 publish, as true, any falsely altered or spurious obligation or
 16 coupon, issued or purporting to have been issued by the cor-
 17 poration, knowing the same to be falsely altered or spurious,
 18 shall be punished by a fine of not more than \$10,000 or by
 19 imprisonment for not more than five years, or both.

20 “(s) Whoever, being connected in any capacity with
 21 the corporation, (1) embezzles, abstracts, purloins, or will-
 22 fully misapplies any moneys, funds, securities, or other
 23 things of value, whether belonging to it or pledged, or
 24 otherwise intrusted to it, or (2) with intent to defraud the
 25 corporation or any other body, politic or corporate, or any

1 individual, or to deceive any officer, auditor, or examiner
 2 of the corporation, makes any false entry in any book,
 3 report, or statement of or to the corporation, or without
 4 being duly authorized draws any order or issues, puts forth
 5 or assigns any note, debenture, bond, or other such obliga-
 6 tion, or draft, bill of exchange, mortgage, judgment, or
 7 decree thereof, shall be punished by a fine of not more than
 8 \$10,000 or by imprisonment for not more than five years,
 9 or both.

10 “(t) No individual, association, partnership, or cor-
 11 poration shall use the words ‘Federal Liquidating Corpora-
 12 tion,’ or a combination of these three words, as the name
 13 or a part thereof under which he or it shall do business.
 14 Every individual, partnership, association, or corporation
 15 violating this subdivision shall be punished by a fine of not
 16 exceeding \$1,000 or by imprisonment not exceeding one
 17 year, or both.

18 “(u) The provisions of sections 112, 113, 114, 115,
 19 116, and 117 of the Criminal Code of the United States
 20 (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive), in
 21 so far as applicable, are extended to apply to contracts or
 22 agreements with the corporation under this section, which for
 23 the purposes hereof shall be held to include loans, advances,
 24 extensions, and renewals thereof, and acceptances, releases,
 25 and substitutions of security therefor, purchases or sales of

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

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

8 SEC. 8. The seventh paragraph of section 13 of the
9 Federal Reserve Act, as amended, is amended to read as
10 follows:

11 “Any Federal reserve bank may make advances to
12 its member banks on their promissory notes for a period
13 not exceeding fifteen days at rates to be established by
14 such Federal reserve bank, subject to the review and
15 determination of the Federal Reserve Board, provided such
16 promissory notes are secured by such notes, drafts, bills of
17 exchange, or bankers' acceptances as are eligible for redis-
18 count or for purchase by Federal reserve banks under the
19 provisions of this Act, or by the deposit or pledge of bonds
20 or notes of the United States. If any member bank to
21 which any such advance has been made shall, during the
22 life or continuance of such advance, and despite an official
23 warning of the reserve bank of the district or of the Federal
24 Reserve Board to the contrary, increase its outstanding
25 loans secured by collateral in the form of stocks, bonds,

1 debentures, or other such obligations, or loans made to mem-
2 bers of any organized stock exchange, investment house,
3 or dealer in securities, upon any obligation, note, or bill,
4 secured or unsecured, for the purpose of purchasing and/or
5 carrying stocks, bonds, or other investment securities (ex-
6 cept obligations of the United States) such advance shall be
7 deemed immediately due and payable, and such member
8 bank shall be ineligible as a borrower at the reserve
9 bank of the district under the provisions of this para-
10 graph for such period as the Federal Reserve Board shall
11 determine.”

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

15 “(g) The Federal Reserve Board shall exercise special
16 supervision over all relationships and transactions of any
17 kind entered into by any Federal reserve bank with any
18 foreign bank or banker, or with any group of foreign banks
19 or bankers, and all such relationships and transactions shall
20 be subject to such regulations, conditions, and limitations as
21 the board may prescribe. No officer or other representa-
22 tive of any Federal reserve bank shall conduct negotiations
23 of any kind with the officers or representatives of any
24 foreign bank or banker without first obtaining the permis-
25 sion of the Federal Reserve Board. The Federal Reserve

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

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

14 “No member bank shall act as the medium or agent of
 15 any nonbanking corporation, partnership, association, busi-
 16 ness trust, or individual in making loans on the security of
 17 stocks, bonds, and other investment securities to brokers or
 18 dealers in stocks, bonds, and other investment securities.
 19 Every violation of this provision by any member bank shall
 20 be punishable by a fine of not more than \$100 per day during
 21 the continuance of such violation; and such fine may be col-
 22 lected, by suit or otherwise, by the Federal reserve bank
 23 of the district in which such member bank is located.”

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

1 “(g) No executive officer of any member bank shall
 2 borrow from or otherwise become indebted to any member
 3 bank of which he is an executive officer, and no member
 4 bank shall make any loan or extend credit in any other man-
 5 ner to any of its own executive officers. If any executive
 6 officer of any member bank borrow from or if he be or
 7 become indebted to any bank other than a member bank of
 8 which he is an executive officer, he shall make a written
 9 report to the chairman of the board of directors of the mem-
 10 ber bank of which he is an executive officer, stating the date
 11 and amount of such loan or indebtedness, the security there-
 12 for, and the purpose for which the proceeds have been or
 13 are to be used. Any executive officer of any member bank
 14 violating the provisions of this subsection shall be deemed
 15 guilty of a misdemeanor and shall be imprisoned not exceed-
 16 ing one year or fined not more than \$5,000, or both; and
 17 any member bank violating the provisions of this subsection
 18 shall be fined not more than \$10,000 and may be fined a
 19 further sum equal to the amount so loaned or credit so
 20 extended.

21 “(h) If a spouse, a brother, or a sister, a lineal ances-
 22 tor, or a direct descendant of an executive officer of any
 23 member bank borrow from or if he or she be or become
 24 indebted to such member bank, such executive officer shall
 25 make a written report to the chairman of the board of

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

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

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

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

4 “ Within the foregoing limitations, each loan or exten-
5 sion of credit of any kind or character to an affiliate shall be
6 secured by collateral in the form of stocks, bonds, debentures,
7 or other such obligations having a market value at the time
8 of making the loan or extension of credit of at least 20 per
9 centum more than the amount of the loan or extension of
10 credit, or of at least 10 per centum more than the amount of
11 the loan or extension of credit if it is secured by obligations
12 of any State, or of any political subdivision or agency
13 thereof: *Provided*, That the provisions of this paragraph
14 shall not apply to loans or extensions of credit secured by
15 obligations of the United States Government, the Federal
16 intermediate credit banks, or the Federal land banks, or by
17 such notes, drafts, bills of exchange, or bankers' acceptances
18 as are eligible for rediscount or for purchase by Federal
19 reserve banks. A loan or extension of credit to a director,
20 officer, clerk, or other employee or any representative of
21 any such affiliate shall be deemed a loan to the affiliate to
22 the extent that the proceeds of such loan are used for the
23 benefit of, or transferred to, the affiliate.

24 “ For the purposes of this section the term ‘affiliate’
25 shall include holding company affiliates as well as other

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

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

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

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

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

6 "SEC. 25. (b) Notwithstanding any other provision
 7 of law all suits of a civil nature at common law or in equity
 8 to which any corporation organized under the laws of the
 9 United States shall be a party, arising out of transactions
 10 involving international or foreign banking, or banking in
 11 a dependency or insular possession of the United States,
 12 or out of other international or foreign financial operations,
 13 either directly or through the agency, ownership, or control
 14 of branches or local institutions in dependencies or insular
 15 possessions of the United States or in foreign countries,
 16 shall be deemed to arise under the laws of the United States,
 17 and the district courts of the United States shall have
 18 original jurisdiction of all such suits; and any defendant in
 19 any such suit may, at any time before the trial thereof,
 20 remove such suits from a State court into the district court
 21 of the United States for the proper district by following the
 22 procedure for the removal of causes otherwise provided by
 23 law."

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

4 "Seventh. To exercise by its board of directors or
5 duly authorized officers or agents, subject to law, all such
6 incidental powers as shall be necessary to carry on the busi-
7 ness of banking; by discounting and negotiating promissory
8 notes, drafts, bills of exchange, and other evidences of debt;
9 by receiving deposits; by buying and selling exchange, coin,
10 and bullion; by loaning money on personal security; and
11 by obtaining, issuing, and circulating notes according to
12 the provisions of this title; and generally by engaging in all
13 forms of banking business and undertaking all types of
14 banking transactions that may, by the laws of the State
15 in which such bank is situated, be permitted to banks of
16 deposit and discount organized and incorporated under the
17 laws of such State, except in so far as they may be for-
18 bidden by the provisions of any Act of Congress. The busi-
19 ness of dealing in investment securities by the association shall
20 be limited to purchasing and selling such securities without
21 recourse, solely upon the order, and for the account of,
22 customers, and in no case for its own account, and the asso-
23 ciation shall not underwrite any issue of securities: *Pro-*
24 *vided*, That the association may purchase for its own account
25 investment securities under such limitations and restrictions

1 as the Comptroller of the Currency may by regulation pre-
2 scribe, but in no event (1) shall the total amount of any
3 issue of investment securities of any one obligor or maker
4 purchased after this section as amended takes effect and held
5 by the association for its own account exceed at any time 10
6 per centum of the total amount of such issue outstanding, but
7 this limitation shall not apply to any such issue the total
8 amount of which does not exceed \$100,000 and does not
9 exceed 50 per centum of the capital of the association, nor
10 (2) shall the total amount of the investment securities of
11 any one obligor or maker purchased after this section as
12 amended takes effect and held by the association for its own
13 account exceed at any time 15 per centum of the amount of
14 the capital stock of the association actually paid in and un-
15 impaired and 25 per centum of its unimpaired surplus fund.
16 As used in this section the term 'investment securities'
17 shall mean marketable obligations evidencing indebtedness
18 of any person, copartnership, association, or corporation in
19 the form of bonds, notes and/or debentures commonly
20 known as investment securities under such further definition
21 of the term 'investment securities' as may by regulation
22 be prescribed by the Comptroller of the Currency. Except
23 as hereinafter provided or otherwise permitted by law, noth-
24 ing herein contained shall authorize the purchase by the asso-
25 ciation of any shares of stock of any corporation. The limi-

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

12 This section shall take effect five years after the date
 13 of the approval of this Act.

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

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

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

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

7 "No applying bank shall be admitted to membership
 8 in a Federal reserve bank unless it possesses a paid-up unim-
 9 paired capital sufficient to entitle it to become a national
 10 banking association in the place where it is situated under
 11 the provisions of the National Bank Act, as amended."

12 SEC. 17. Section 5139 of the Revised Statutes, as
 13 amended, is amended by adding at the end thereof the fol-
 14 lowing new paragraph:

15 "After five years from the date of the enactment of
 16 the Banking Act of 1933, no certificate representing the
 17 stock of any such association shall represent the stock of
 18 any other corporation, except a member bank, nor shall the
 19 ownership, sale, or transfer of any certificate representing
 20 the stock of any such association be conditioned in any
 21 manner whatsoever upon the ownership, sale, or transfer
 22 of a certificate representing the stock of any other corpora-
 23 tion, except a member bank."

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

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

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

20 "Any such holding company affiliate may make appli-
 21 cation to the Federal Reserve Board for a voting permit
 22 entitling it to cast one vote at all elections of directors and
 23 in deciding all questions at meetings of shareholders of such
 24 bank on each share of stock controlled by it or authoriz-
 25 ing the trustee or trustees holding the stock for its benefit

1 or for the benefit of its shareholders so to vote the same.
 2 The Federal Reserve Board may, in its discretion, grant or
 3 withhold such permit as the public interest may require.
 4 In acting upon such application, the board shall consider
 5 the financial condition of the applicant, the general character
 6 of its management, and the probable effect of the granting
 7 of such permit upon the affairs of such bank, but no such
 8 permit shall be granted except upon the following conditions:
 9 " (a) Every such holding company affiliate shall, in
 10 making the application for such permit, agree (1) to
 11 receive, on dates identical with those fixed for the examina-
 12 tion of banks with which it is affiliated, examiners duly
 13 authorized to examine such banks, who shall make such
 14 examinations of such holding company affiliate as shall be
 15 necessary to disclose fully the relations between such banks
 16 and such holding company affiliate and the effect of such
 17 relations upon the affairs of such banks, such examinations
 18 to be at the expense of the holding company affiliate so
 19 examined; (2) that the reports of such examiners shall
 20 contain such information as shall be necessary to disclose
 21 fully the relations between such affiliate and such banks
 22 and the effect of such relations upon the affairs of such
 23 banks; (3) that such examiners may examine each bank
 24 owned or controlled by the holding company affiliate, both
 25 individually and in conjunction with other banks owned or

1 controlled by such holding company affiliate; and (4) that
2 publication of individual or consolidated statements of con-
3 dition of such banks may be required;

4 “(b) After five years after the enactment of the
5 Banking Act of 1933, every such holding company
6 affiliate (1) shall possess, and shall continue to possess
7 during the life of such permit, free and clear of any lien,
8 pledge, or hypothecation of any nature, readily marketable
9 assets other than bank stock in an amount not less than
10 12 per centum of the aggregate par value of all bank stocks
11 controlled by such holding company affiliate, which amount
12 shall be increased by not less than 2 per centum per annum of
13 such aggregate par value until such assets shall amount to 25
14 per centum of the aggregate par value of such bank stocks;
15 and (2) shall reinvest in readily marketable assets other than
16 bank stock all net earnings over and above 6 per centum
17 per annum on the book value of its own shares outstanding
18 until such assets shall amount to such 25 per centum of the
19 aggregate par value of all bank stocks controlled by it;

20 “(c) Notwithstanding the foregoing provisions of this
21 section, after five years after the enactment of the Bank-
22 ing Act of 1933, (1) any such holding company affiliate
23 the shareholders or members of which shall be indi-
24 vidually and severally liable in proportion to the number
25 of shares of such holding company affiliate held by them

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

16 “(d) Every officer, director, agent, and employee of
17 every such holding company affiliate shall be subject to the
18 same penalties for false entries in any book, report, or
19 statement of such holding company affiliate as are applicable
20 to officers, directors, agents, and employees of member
21 banks under section 5209 of the Revised Statutes, as
22 amended; and

23 “(e) Every such holding company affiliate shall, in its
24 application for such voting permit, (1) show that it does not
25 own, control, or have any interest in, and is not participating

1 in the management or direction of, any corporation, business
 2 trust, association, or other similar organization formed for
 3 the purpose of, or engaged principally in, the issue, flota-
 4 tion, underwriting, public sale, or distribution, at wholesale
 5 or retail or through syndicate participation, of stocks, bonds,
 6 debentures, notes, or other securities of any sort (here-
 7 inafter referred to as securities company); (2) agree that
 8 during the period that the permit remains in force it will
 9 not acquire any ownership, control, or interest in any such
 10 securities company or participate in the management or
 11 direction thereof; (3) agree that if, at the time of filing
 12 the application for such permit, it owns, controls, or has an
 13 interest in, or is participating in the management or direc-
 14 tion of, any such securities company, it will, within five
 15 years after the filing of such application, divest itself of its
 16 ownership, control, and interest in such securities company
 17 and will cease participating in the management or direction
 18 thereof, and will not thereafter, during the period that the
 19 permit remains in force, acquire any further ownership,
 20 control, or interest in any such securities company or par-
 21 ticipate in the management or direction thereof; and (4)
 22 agree that thenceforth it will declare dividends only out of
 23 actual net earnings.

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

1 of the provisions of the Banking Act of 1933 or of any
 2 agreement made pursuant to this section, the Federal Re-
 3 serve Board may, in its discretion, revoke any such voting
 4 permit after giving sixty days' notice by registered mail of
 5 its intention to the holding company affiliate and affording
 6 it an opportunity to be heard. Whenever the Federal Re-
 7 serve Board shall have revoked any such voting permit, no
 8 national bank whose stock is controlled by the holding com-
 9 pany affiliate whose permit is so revoked shall receive deposits
 10 of public moneys of the United States, nor shall any such
 11 national bank pay any further dividend to such holding com-
 12 pany affiliate upon any shares of such bank controlled by
 13 such holding company affiliate.

14 "Whenever the Federal Reserve Board shall have re-
 15 voked any voting permit as hereinbefore provided, the
 16 rights, privileges, and franchises of any or all national banks
 17 the stock of which is controlled by such holding company
 18 affiliate shall, in the discretion of the Federal Reserve Board,
 19 be subject to forfeiture in accordance with section 2 of the
 20 Federal Reserve Act, as amended."

21 SEC. 19. After five years from the date of the enact-
 22 ment of this Act, no member bank shall be affiliated in any
 23 manner described in section 2 (b) hereof with any corpo-
 24 ration, association, business trust, or other similar organiza-
 25 tion engaged principally in the issue, flotation, underwriting,

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

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

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

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

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

1 or village, or at any point within the State in which said
2 association is situated, if such establishment and operation
3 are at the time expressly authorized to State banks by the
4 law of the State in question and subject to the restrictions as
5 to location imposed by the law of the State on State banks.
6 No such association shall establish a branch outside of the
7 city, town, or village in which it is situated unless it has a
8 paid-in and unimpaired capital stock of not less than
9 \$500,000: *Provided*, That in States with a population of
10 less than one million, and which have no cities located therein
11 with a population exceeding one hundred thousand, the
12 capital shall be not less than \$250,000.”

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

15 “(d) The aggregate capital of every national banking
16 association and its branches shall at no time be less than the
17 aggregate minimum capital required by law for the estab-
18 lishment of an equal number of national banking associations
19 situated in the various places where such association and
20 its branches are situated.”

21 SEC. 21. Sections 1 and 3 of the Act entitled “An Act
22 to provide for the consolidation of national banking associa-
23 tions,” approved November 7, 1918, as amended, are
24 amended by striking out the words “county, city, town, or
25 village” wherever they occur in each such section, and

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

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

5 "Any association may take, receive, reserve, and charge
6 on any loan or discount made, or upon any notes, bills of
7 exchange, or other evidences of debt, interest at the rate
8 allowed by the laws of the State, Territory, or District where
9 the bank is located, or at a rate of 1 per centum in excess
10 of the discount rate on ninety-day commercial paper in effect
11 at the Federal reserve bank in the Federal reserve district
12 where the bank is located, whichever may be the greater,
13 and no more, except that where by the laws of any State
14 a different rate is limited for banks organized under State
15 laws, the rate so limited shall be allowed for associations
16 organized or existing in any such State under this title.
17 When no rate is fixed by the laws of the State, or Territory,
18 or District, the bank may take, receive, reserve, or charge a
19 rate not exceeding 7 per centum, or 1 per centum in excess
20 of the discount rate on ninety-day commercial paper in
21 effect at the Federal reserve bank in the Federal reserve
22 district where the bank is located, whichever may be the
23 greater, and such interest may be taken in advance, reckon-
24 ing the days for which the note, bill, or other evidence of
25 debt has to run."

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

8 SEC. 24. Section 5211 of the Revised Statutes, as
9 amended, is amended by adding at the end thereof the fol-
10 lowing new paragraph:

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

1 corresponding report of the association, except that the
 2 Comptroller may, in his discretion, extend such time for
 3 good cause shown. Each such report shall contain such
 4 information as in the judgment of the Comptroller of the
 5 Currency shall be necessary to disclose fully the relations
 6 between such affiliate and such bank and to enable the
 7 Comptroller to inform himself as to the effect of such rela-
 8 tions upon the affairs of such bank. The reports of such
 9 affiliates shall be published by the association under the same
 10 conditions as govern its own condition reports. The Comp-
 11 troller shall also have power to call for additional reports
 12 with respect to any such affiliate whenever in his judgment
 13 the same are necessary in order to obtain a full and com-
 14 plete knowledge of the conditions of the association with
 15 which it is affiliated. Such additional reports shall be
 16 transmitted to the Comptroller of the Currency in such form
 17 as he may prescribe. Any such affiliated bank which fails
 18 to obtain and furnish any report required under this section
 19 shall be subject to a penalty of \$100 for each day during
 20 which such failure continues."

21 SEC. 25. (a) The first paragraph of section 5240 of the
 22 Revised Statutes, as amended, is amended by inserting before
 23 the period at the end thereof a colon and the following pro-
 24 viso: "Provided, That in making the examination of any
 25 national bank the examiners shall include such an examina-

1 tion of the affairs of all its affiliates other than member banks
 2 as shall be necessary to disclose fully the relations between
 3 such bank and such affiliates and the effect of such relations
 4 upon the affairs of such bank; and in the event of the refusal
 5 to give any information required in the course of the exami-
 6 nation of any such affiliate, or in the event of the refusal
 7 to permit such examination, all the rights, privileges, and
 8 franchises of the bank shall be subject to forfeiture in accord-
 9 ance with section 2 of the Federal Reserve Act, as
 10 amended. The Comptroller of the Currency shall have
 11 power, and he is hereby authorized, to publish the report
 12 of his examination of any national banking association or
 13 affiliate which shall not within one hundred and twenty
 14 days after notification of the recommendations or suggestions
 15 of the comptroller, based on said examination, have com-
 16 plied with the same to his satisfaction. Ninety days' notice
 17 prior to such publicity shall be given to the bank or
 18 affiliate."

19 (b) Section 5240 of the Revised Statutes, as amended,
 20 is further amended by adding after the first paragraph
 21 thereof the following new paragraph:
 22 "The examiner making the examination of any affiliate
 23 of a national bank shall have power to make a thorough
 24 examination of all the affairs of the affiliate, and in doing
 25 so he shall have power to administer oaths and to examine

1 any of the officers, directors, employees, and agents thereof
 2 under oath and to make a report of his findings to the
 3 Comptroller of the Currency. The expense of examinations
 4 of such affiliates may be assessed by the Comptroller of the
 5 Currency upon the affiliates examined in proportion to assets
 6 or resources held by the affiliates upon the dates of examina-
 7 tion of the various affiliates. If any such affiliate shall
 8 refuse to pay such expenses or shall fail to do so within
 9 sixty days after the date of such assessment, then such
 10 expenses may be assessed against the affiliated national bank
 11 and, when so assessed, shall be paid by such national bank:
 12 *Provided, however,* That, if the affiliation is with two or
 13 more national banks, such expenses may be assessed against,
 14 and collected from, any or all of such national banks in such
 15 proportions as the Comptroller of the Currency may
 16 prescribe. If any affiliate of a national bank shall refuse
 17 to permit an examiner to make an examination of the affiliate
 18 or shall refuse to give any information required in the course
 19 of any such examination, the national bank with which it is
 20 affiliated shall be subject to a penalty of not more than \$100
 21 for each day that any such refusal shall continue. Such pen-
 22 alty may be assessed by the Comptroller of the Currency and
 23 collected in the same manner as expenses of examinations.”
 24 SEC. 26. In any case in which, in the opinion of the
 25 Comptroller of the Currency, it would be to the advantage

1 of the depositors and unsecured creditors of any national
 2 banking association whose business has been closed, for such
 3 association to resume business upon the retention by the
 4 association, for a reasonable period to be prescribed by the
 5 Comptroller, of all or any part of its deposits, the Comp-
 6 troller is authorized, in his discretion, to permit the associa-
 7 tion to resume business if depositors and unsecured creditors
 8 of the association representing at least 85 per centum of its
 9 total deposit and unsecured credit liabilities consent in writing
 10 to such retention of deposits. Nothing in this section shall
 11 be construed to affect in any manner any powers of the
 12 Comptroller under the provisions of law in force on the date
 13 of enactment of this Act with respect to the reorganization
 14 of national banking associations.
 15 SEC. 27. Whenever, in the opinion of the Comp-
 16 troller of the Currency, any director or officer of a national
 17 bank, or of a bank or trust company doing business in the
 18 District of Columbia, or whenever, in the opinion of a Fed-
 19 eral reserve agent, any director or officer of a State member
 20 bank in his district shall have continued to violate any law
 21 relating to such bank or trust company or shall have con-
 22 tinued unsafe or unsound practices in conducting the business
 23 of such bank or trust company, after having been warned
 24 by the Comptroller of the Currency or the Federal reserve
 25 agent, as the case may be, to discontinue such violations

1 of law or such unsafe or unsound practices, the Comptroller
 2 of the Currency or the Federal reserve agent, as the case may
 3 be, may certify the facts to the Federal Reserve Board.
 4 In any such case the Federal Reserve Board may cause
 5 notice to be served upon such director or officer to appear
 6 before such board to show cause why he should not be
 7 removed from office. A copy of such order shall be sent to
 8 each director of the bank affected, by registered mail. If
 9 after granting the accused director or officer a reasonable
 10 opportunity to be heard, the Federal Reserve Board finds
 11 that he has continued to violate any law relating to such
 12 bank or trust company or has continued unsafe or unsound
 13 practices in conducting the business of such bank or trust
 14 company after having been warned by the Comptroller of
 15 the Currency or the Federal reserve agent to discontinue
 16 such violation of law or such unsafe or unsound practices,
 17 the Federal Reserve Board, in its discretion, may order
 18 that such director or officer be removed from office. A copy
 19 of such order shall be served upon such director or officer.
 20 A copy of such order shall also be served upon the bank of
 21 which he is a director or officer, whereupon such director or
 22 officer shall cease to be a director or officer of such bank:
 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-

1 tors of the bank involved, otherwise than in connection with
 2 proceedings for a violation of this section. Any such director
 3 or officer removed from office as herein provided who there-
 4 after participates in any manner in the management of such
 5 bank shall be fined not more than \$5,000 or imprisoned for
 6 not more than five years, or both, in the discretion of the
 7 court.

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

Passed the Senate January 10 (calendar day, January
 25), 1933.

Attest:

EDWIN P. THAYER,
Secretary.

AN ACT

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.

JANUARY 30, 1933

Referred to the Committee on Banking and Currency