

X-3671

TENTATIVE DRAFT OF AMENDMENTS TO REGULATIONS.

The attached draft of amendments to the Federal Reserve Board's Regulations is merely tentative and is intended primarily to serve as a basis for discussion. It has not been submitted to, or approved even tentatively by, the Federal Reserve Board. Constructive criticisms and suggestions are invited.

The changes in the existing regulations are noted in red ink.

(To be inserted in Regulation A at the
place indicated)

(Insert #1)

and (2) certain bills of exchange payable at sight or on demand are eligible even though they have no fixed maturity (See Section VII, below).

(Insert #2)

that which could be borrowed lawfully from such State bank or trust company under the terms of Section 5200 of the United States Revised Statutes, were it a national banking association.

(Insert #3)

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

(Insert #4)

or drawn, or the proceeds thereof have been or are to be used, for such a purpose as to render them eligible for rediscount under the terms of this regulation.

(Insert #5)

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

(b) Paper of Cooperative Marketing Associations. Under the express terms of Section 13(a), notes, drafts, bills of exchange, or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products are deemed to have been issued or drawn for an agricultural purpose, and therefore constitute agricultural paper, if the proceeds thereof have been or

are to be:

- (1) Advanced by such association to any members thereof for an agricultural purpose, or
- (2) Used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or
- (3) Used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market or marketing of any agricultural product handled by such association for any of its members.

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

(Insert #6)

SECTION VII. SIGHT DRAFTS SECURED BY BILLS OF LADING.

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

- (a) Are drawn to finance the domestic shipment of nonperishable, readily marketable staple agricultural products, and
- (b) Are secured by bills of lading or other shipping documents conveying or securing title to such staples.

All such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination. In no event shall any such bill be held by or for the account of a Federal Reserve Bank for a period in excess of 90 days.

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

SECTION VIII. FACTORS' PAPER.

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

(Insert #7)

SECTION XI. MATURITIES.

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

(To be inserted in Regulation E.)

(Insert #1)

SECTION II. DEFINITIONS.

Within the meaning of this regulation:

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

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

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

- (1) The amount of outstanding bonds or other debt obligations made payable from current revenues;
- (2) The amount of outstanding bonds issued for the purpose of providing the inhabitants of a municipality with public utilities, such as waterworks, docks, electric plants, transportation facilities, etc: Provided, That evidence is submitted showing that the income from such utilities is sufficient for maintenance, for payment of interest on

such bonds, and for the accumulation of a sinking fund for their redemption;

- (3) The amount of outstanding improvement bonds, issued under laws which provide for the levying of special assessments against abutting property in amounts sufficient to insure the payment of interest on the bonds and the redemption thereof: Provided, That such bonds are direct obligations of the municipality and included in the gross indebtedness of the municipality;
- (4) The total of all sinking funds accumulated for the redemption of the gross indebtedness of the municipality, except sinking funds applicable to bonds just described in (1), (2), and (3) above.

(Insert #2)

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

- (1) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, consolidated with or merged into an existing political division which meets the requirements of these regulations, will be deemed to be the warrants of such political division: Provided, That such warrants were assumed by such political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation

to a special fund from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

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

(3) Warrants issued by or in behalf of any municipality which, prior to such issuance, became the successor of one or more, or was formed by the consolidation or merger of two or more, preexisting political divisions, the term of existence of one or more of which, added to that of such succeeding or consolidated political division, is equal to a period of 10 years, will be deemed to be warrants of a political division which has been in existence for a period of 10 years: Provided, That during

such period none of such original, succeeding, or consolidated political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it.

(To be inserted in Regulation H.)

(INSERT #1)

SECTION II. BANKS ELIGIBLE FOR MEMBERSHIP.

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

2. Capital Stock. Under the terms of Section 9 of the Federal Reserve Act as amended, no applying bank can be admitted to membership in a Federal reserve bank unless:

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

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

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

If located in a city or town with a population of	Minimum capital if admitted under clause (a)	Minimum capital if admitted under clause (b)
:	:	:

Not exceeding 3,000 inhabitants.	:	\$25,000	:	\$15,000
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Exceeding 3,000 but not ex-			
ceeding 6,000 inhabitants :	\$50,000	:	\$30,000

Exceeding 6,000, but not ex-			
ceeding 50,000 inhabitants. :	\$100,000	:	\$60,000

Exceeding 50,000 inhabitants:	\$200,000	:	\$120,000

Any bank admitted to membership under clause (b) must also, as a condition of membership, the violation of which will subject it to expulsion from the Federal Reserve System, increase its capital within five years after the approval of its application by the Federal Reserve Board to the amount required under (a). For the purpose of providing for such increase, every such bank shall set aside each year in a special fund not less than 50 per cent of its net earnings for the preceding year, and if such net earnings exceed 12 per cent of the paid-up capital of such bank, then all net earnings in excess of 6 per cent of the paid-up capital shall be carried to such fund, until such fund is large enough to provide for the necessary increase in capital. Whenever it amounts to \$5,000, or at such other time as the Federal Reserve Board may require, such fund shall be used to increase the capital of such bank, except that any odd sums of less than \$100 need not be so applied and may remain in such fund until the next increase of capital.

(INSERT #2)

, If such bank applies for membership under Section II, 2, (b), it shall also file with its application an agreement on Federal Reserve Board Form _____, signed by the holders of not less than two-thirds of its capital stock, in which such stockholders shall undertake to do all in their power to bring about compliance with the requirements of that section and to vote for and do everything else necessary to authorize and consummate the increases of capital therein required.

(INSERT #3)

(4) Shall not, except upon prior application to and approval of the Federal Reserve Board, reduce its capital stock or cause or permit any change in the general character of its assets or broadening of the functions exercised by it such as will tend to affect materially the standard maintained at the time of its admission and required as a condition of membership;

(5) Shall exercise all of its powers with due regard to the safety of its customers;

(6) Shall not, except upon prior application to and approval of the Federal Reserve Board, establish any branch or agency; consolidate with or absorb any other bank; either directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any engagement to acquire such an interest.

(7) Shall reduce to the limits prescribed by the laws of the State of its incorporation any loan which may be in excess of such limits and thereafter shall keep its loans within such limits;

(8) Shall reduce to 10% of its capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies not members of the Federal Reserve System;

(9) May accept drafts and bills of any character permitted by the laws of the State of its incorporation; but the aggregate amount of all

acceptances outstanding at any one time shall not exceed the limitations imposed by Section 13 of the Federal Reserve Act, that is, 50% of its capital and surplus for acceptances drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board, and 50% of its capital and surplus for all other acceptances, whether domestic or foreign, except that the Federal Reserve Board may increase this limit from 50% to 100% upon the application of such member bank; provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed 50% of its capital and surplus; and

(10) Shall comply at all times with any and all special conditions of membership prescribed by the Federal Reserve Board at the time of the admission of such member bank to the Federal Reserve System or subsequently agreed upon by the Federal Reserve Board and such member bank.

(To be inserted in Regulation I)

(INSERT #1)

1. New national banks.— Each newly organized bank (including any nonmember State bank which shall have converted into a national bank¹) shall file with the Federal Reserve Bank of its district an application to the Federal Reserve Board on F. R. B. Form 30, made a part of this regulation, for an amount of capital stock of the Federal Reserve Bank of its district equal to 6 per cent of the paid-up capital stock and surplus of such national bank. Such application shall be forwarded promptly to the Federal Reserve Board, and if it is found to be in proper form the Federal Reserve Board will either disapprove it or approve it effective if and when the Comptroller of the Currency issues to such bank his certificate of authority to commence business. If its application is approved, the applying bank shall thereupon make a payment to the Federal Reserve Bank of its district of one-half of the amount of its subscription, i. e., 3 per cent of the amount of its paid-up capital and surplus; and upon receipt of this payment the Federal Reserve Bank will issue a receipt therefor, place the amount in a suspense account, and notify the Federal Reserve Board that it has been received. When the Comptroller of the Currency issues to such applying bank his certificate of authority to commence business; the Federal Reserve Bank shall issue a stock certificate to the applying bank, and the capital stock of the Federal Reserve Bank represented by such certificate shall be considered as issued as of the date upon which the Comptroller of the Currency issues his certificate of authority to commence business. The remaining half of the subscription

of the applying bank shall be subject to call when deemed necessary by the Federal Reserve Board.

(INSERT #2)

If the receiver shall fail to make such application within the time specified, the Federal Reserve Agent shall report the facts to the Federal Reserve Board with a recommendation as to the action to be taken, whereupon the Federal Reserve Board will either issue an order to cancel such stock or, if the circumstances warrant it, grant the receiver additional time in which to file such an application.