

FEDERAL RESERVE
BOARDDATE Dec. 17, 1928.

TO Law Committee SUBJECT Proposed Amendments to the
 FROM Mr. Wyatt - General Counsel. Federal Reserve Act.

It appears from the attached memorandum (which was not received in this office until December 13th) that, on November 15th, the Board voted to request the Law Committee "to report to the Board with respect to the more important amendments on which prompt action by Congress should be requested."

It would seem that before it can report to the Board on this matter it will be necessary for the Law Committee to consider all proposed amendments to the Federal Reserve Act which have been considered by the Board during the past year and decide which ones are sufficiently important to make prompt action by Congress desirable. As a preliminary step, therefore, I shall, in this memorandum, call attention to the various proposed amendments which have been considered during the past year and comment briefly on the status and importance of each one.

Unless the Committee desires to have a formal meeting to consider this subject, I respectfully suggest that each member of the Committee place his initials opposite the bills on which he thinks prompt action should be requested, and that the Committee report to the Federal Reserve Board the amendments on which the majority of the Committee thus indicate their desire for prompt action.

AMENDMENTS RECOMMENDED IN ANNUAL REPORT.

In its Annual Report for the year 1927 (pages 46 to 50, inclusive) the Board recommended the enactment of the following amendments, drafts of which were prepared but not published in the Annual Report:

- (1) An amendment to Section 9 of the Federal Reserve Act to permit State member banks of the Federal Reserve System to have foreign branches. - The Board stated that this amendment should be enacted as soon as possible.
- (2) An amendment to Section 4 of the Federal Reserve Act to permit an officer, director or employee of a mutual savings bank to serve as a Class B or Class C director of a Federal reserve bank. - Such an amendment probably would not meet with much opposition and might be enacted at the short session, but it would not seem to be very important or urgent.
- (3) An amendment permitting the cancellation of Federal reserve bank stock held by member banks which have gone out of business without a receiver or liquidating agent having been appointed therefor. - This matter is not of great importance and is usually handled satisfactorily by every Federal reserve bank except Chicago; but it seems to be giving the Federal Reserve Bank of Chicago much annoyance and the enactment of such an amendment "at an opportune time" was recommended by the last Conference of Federal Reserve Agents. In a circular letter dated October 12th (X-6173-a) addressed to all Federal Reserve Agents, which was presented by Governor Young to the Conference of Federal Reserve Agents, it was stated that this proposed amendment will again be presented to Congress "at the opening of Congress in December"; and this state-

ment was "noted with gratification" by the Conference of Federal Reserve Agents. This office knew nothing of it, however, until I discovered it by accident on December 17th.

(4) An amendment making it discretionary with the Federal Reserve Board to assess the costs of examining State member banks against the banks examined. - Such an amendment is believed to be the key to the entire problem of obtaining more adequate examinations of State member banks and, therefore, may well be considered both urgent and important.

(5) An amendment exempting Federal reserve banks from attachment or garnishment proceedings before final judgment in any case or proceeding. - Such an amendment is very desirable and further delay in its enactment might result in embarrassment and inconvenience to Federal reserve banks. The present session, however, may not be an opportune time to urge its enactment.

(6) An amendment to the Judicial Code restoring to the United States District Courts jurisdiction of suits by and against Federal reserve banks. - Such an amendment is very much to be desired, and its enactment should be urged upon Congress at the earliest favorable opportunity. I doubt, however, that the present time is a favorable time to urge such an amendment, because of the fact that there is now pending in Congress a bill further to restrict the jurisdiction of the Federal courts and a very bitter fight over that bill has developed.

(7) An amendment to Section 13 of the Federal Reserve Act increasing from fifteen to ninety days the maximum maturity of advances made by Federal reserve banks to member banks on their promissory notes secured by paper eligible for rediscount by Federal reserve banks. - Under date of March 23, 1928, Congressman Sumners of Texas introduced a bill, H.R. 12349, which would have extended to 90 days the maximum maturity of member bank promissory notes secured not only by eligible paper but also by the deposit or pledge of bonds or notes of the United States. In response to a letter from Congressman McFadden requesting the Board's views on this bill, the Board on April 24th, stated that it was in sympathy with the general purposes of the bill but would prefer that the increased maturity be limited to promissory notes secured by paper eligible for rediscount or for purchase by Federal reserve banks and that no change be made in the maximum maturity of advances against such promissory notes secured by the deposit or pledge of bonds or notes of the United States. The bill was never reported out by the Banking and Currency Committee, but it would seem to have a good chance of enactment if it should be reported out at this time, because of the fact that it would be especially helpful to country banks and indirectly to the farmers.

AMENDMENTS CONSIDERED BY BOARD LAST JANUARY, BUT NOT RECOMMENDED IN ANNUAL REPORT.

In addition to the above, the Board last January considered the following proposed amendments, but did not recommend their enactment in its Annual Report:

(1) A proposed amendment to the first paragraph of Section 19 of the Federal Reserve Act more clearly defining demand deposits, time deposits, savings deposits, etc., and making it more difficult to evade the proper classification of deposits for the purpose of computing reserves. - Some legislation of this kind is badly needed.

(2) An amendment to Section 19 of the Federal Reserve Act authorizing member banks in computing their reserves to deduct "balances due from banks" from their gross demand deposits instead of from "balances due to other banks", as at present. - It has been suggested that such an amendment should be obtained in order to give the country banks the same advantages in this respect as are now enjoyed by the city banks, and there has been considerable agitation for such an amendment.

(3) A complete revision of Section 19, adjusting, clarifying and simplifying the reserve requirements. - Mr. Smead and I have drafted such a bill based upon a careful analysis and study of this subject made by Mr. Smead. The bill so drafted was submitted to all the Federal Reserve Agents for their criticism and comment, and a revised draft has been prepared, which is generally believed to be the best thing along this line yet produced. The Board, however, has never approved it and there is some doubt whether the Board would approve it in its present form.

BILLS RECOMMENDED BY CONFERENCES OF GOVERNORS
AND AGENTS.

In addition to some of the above bills, the enactment of some of which was favored by the recent Conferences of Governors and Federal Reserve Agents, the following bills were discussed at those Conferences:

(1) To require the approval of the Federal Reserve Board before charters are granted to new national banks.- Such an amendment was recommended by the Conference of Federal Reserve Agents in 1927, on the ground that all national banks, when chartered, automatically become members of the Federal Reserve System; and the last Conference of Federal Reserve Agents again called attention to this recommendation.

(2) To require the appointment of a liquidating agent by the stockholders of any liquidating national bank and in the event of their failure to do so to empower the Comptroller of the Currency to appoint a liquidating agent and further to require all liquidating agents to report regularly to the Comptroller of the Currency. - Such an amendment was recommended at the recent Conference of Federal Reserve Agents in connection with the recommendation providing for the cancellation of Federal reserve bank stock held by member banks which have ceased to do a banking business without a receiver or liquidating agent having been appointed therefor. A similar amendment was recommended by the Comptroller of the Currency in his last Annual Report, page 4.

(3) An amendment authorizing the Federal Reserve Board to waive six months' notice of the intended withdrawal of a State member bank from the Federal Reserve System. - Such an amendment was favored by the recent Governors' Conference, but opposed by the recent Conference of Federal Reserve Agents. After considering the recommendations of both Conferences, the Board voted to suggest the enactment of such an amendment to Congress "at the proper time".

(4) Pension Bill. - In the report of the recent Governors' Conference it was stated that the proposed Federal Reserve Pension Bill would be

reintroduced in Congress at this session and an attempt made to obtain its enactment. This bill, however, has been handled exclusively by the Federal reserve banks and the Board heretofore has purposely refrained from making any formal recommendations with regard thereto.

OTHER AMENDMENTS.

In addition to the above, the following amendments have been considered in some form or another, and may be entitled to some consideration at this time:

(1) The bill to exempt joint stock land banks and similar non-commercial banking institutions from the provisions of the Clayton Anti-Trust Act. - Such a bill (S. 4039) passed the Senate during the last session of the present Congress, but was never reported out by the Banking and Currency Committee of the House. There are strong reasons for the enactment of such a bill; and it would seem that an effort should be made to have this bill reported out by the House Banking and Currency Committee and passed by the House at the present session, in order that the advantage gained by its passage in the Senate might not be lost through the death of this bill at the expiration of the present Congress.

(2) An amendment to the fourth paragraph of Section 13 of the Federal Reserve Act making the limitations prescribed by that paragraph conform to Section 5200 of the Revised Statutes, as amended by the McFadden Act. - This section pertains to the amount of paper of any one borrower which may be discounted by a Federal reserve bank for any one member bank; and the provision of the Federal Reserve Act does not contain many of the exceptions contained in Section 5200. At present, therefore, a national bank may not rediscount with a Federal reserve bank all the paper of any one borrower which it may acquire lawfully under Section 5200 of the Revised Statutes. This question was considered by the Conference of Governors in April, 1928, and a resolution asking the Board to urge the enactment of such an amendment was defeated by a vote of ten to two.

(3) An amendment to Section 9 requiring all State banks heretofore or hereafter admitted to membership in the Federal Reserve System to comply at all times with the banking laws of the States in which they are located. - Such an amendment has never been formally considered by the Board, but was discussed informally by Governor Young and the undersigned in connection with a letter addressed to the State Bank of Payson, Payson, Utah, by Mr. Sargent, Assistant Federal Reserve Agent at San Francisco, wherein Mr. Sargent erroneously stated that any violation of State law by a State member bank is considered a violation of its conditions of membership. Such an amendment would enable the Board to expel from the Federal Reserve System a State member bank which habitually violates the State banking laws; but would also impose upon the Federal Reserve Board the duty of ascertaining whether State member banks are complying with the laws of their respective States.

C O N C L U S I O N .

Drafts of nearly all of the above bills have been prepared and are available in this office. As soon as the Committee decides on which of these

bills prompt action should be requested of Congress, this office will be glad to prepare a report to the Board, drafts of letters, and any other documents desired by the Committee.

Respectfully,

(S)

Walter Wyatt,
General Counsel.

Memorandum attached.

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