

FEDERAL RESERVE BOARD

Dec. 7, 1929.

To Governor Young
From Mr. Wyatt-General Counsel.

Subject: Proposed
Bill to Amend Law re Exam-
inations of Member Banks.

The changes which would be made in the law by the attached bill, which I prepared at your request, may be summarized briefly as follows:

1. The Comptroller of the Currency would be required to examine all member banks, including State member banks, at least twice each year, to make special examinations of State member banks when requested by the Federal Reserve Board, and to furnish copies of the reports of all such examinations to the Federal reserve banks and the Federal Reserve Board when requested by the Federal Reserve Board.
2. The expenses of all such examinations would be paid by the Federal Reserve Board out of the proceeds of assessments levied upon the Federal reserve banks, instead of being paid by the banks examined.
3. All authority for the acceptance of State examinations in lieu of Federal examinations would be repealed.
4. The general authority in Section 9 for the examination of State member banks by the Federal Reserve Board and the Federal reserve banks would be repealed, but the general authority in Section 11 for the Board to examine all member banks would be retained.
5. Federal reserve banks would be permitted to make special examinations of member banks only with the permission of the Federal Reserve Board, and the cost of making such examinations would be paid by the Federal reserve bank making the examination.
6. The provision of the present law requiring Federal reserve banks to furnish the Federal Reserve Board with information concerning the condition of member banks would be eliminated. (This, together with the amendment relieving the Federal reserve banks of any responsibility with reference to examinations of member banks, would be calculated to relieve the Federal reserve banks to some extent of the presumption that they either have, or ought to have, full knowledge of the financial condition of their member banks and would lessen the danger of litigation along the lines of the Grimm Alfalfa Case and the Neoga Case.)
7. Federal Reserve Board examiners would specifically be given the same powers with respect to the examinations of Federal reserve banks as national bank examiners now have with respect to examinations of national banks.

Respectfully,

Walter Wyatt,
General Counsel.

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Bill attached.

An act to establish a more effective supervision of banking in the United States, to amend the Federal Reserve Act and Section 5240 of the United States Revised Statutes, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 9 of the Federal Reserve Act, (Title 12, Sections 321 to 332, inclusive, United States Code) as amended, is further amended by striking out the sixth and seventh paragraphs thereof (Title 12, Section 325 and 326, United States Code) and by changing the first sentence of the eleventh paragraph thereof (the first sentence of Section 330, Title 12, United States Code) to read as follows:

"Banks becoming members of the Federal Reserve System under authority of this section shall be subject to the provisions of this section and to those of this act which relate specifically to member banks, and shall be subject to examination under the provisions of subsection (a) of Section 11 of this Act and section fifty-two hundred and forty of the Revised Statutes as amended."

Section 2. That Section fifty-two hundred and forty, United States Revised Statutes (Title 12, Section 481 to 485, inclusive, United States Code), as amended, is amended and reenacted to read as follows:

"Sec. 5240. The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and

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oftener if considered necessary: Provided, however, That the Federal Reserve Board may at any time direct the holding of special examinations of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have "power to make a thorough examination of all the affairs of the bank, and in doing so he shall have power to administer oaths and to examine any of the officers, agents and employees thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency. The Comptroller of the Currency shall, upon request of the Federal Reserve Board, furnish a full copy of the report of each such examination to the Federal Reserve Board and to the Federal reserve bank of which the bank examined is a stockholder.

"The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The salaries of such examiners and all expense of the examinations above provided for shall be paid by the Federal Reserve Board out of the proceeds of assessments levied upon the Federal reserve banks pursuant to the provisions of Section 10 of the Federal Reserve Act.

"In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal Reserve Board, provide for special examination of member banks within its district. The expense of

such examinations shall be borne by the Federal reserve bank making the examination. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them and a copy of the report of each such examination shall be furnished to the Federal Reserve Board, whenever requested by said Board.

"No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

"The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank. The examiners making such examinations shall have power to make thorough examinations of all the affairs of the Federal reserve banks, and in doing so shall have power to administer oaths and to examine any of the officers, agents and employees thereof under oath and shall make full and detailed reports of the condition of such Federal reserve banks to the Federal Reserve Board."