

Feb. 1, 1930

To Mr. Hamlin
From Mr. Wyatt - General Counsel.

SUBJECT: Proposed Legislation which the Board may wish to consider in connection with its Annual Report.

Under date of January 2, 1930, I addressed a memorandum to the Law Committee submitting material prepared by this Office for the forthcoming Annual Report of the Federal Reserve Board. As stated in that memorandum, this Office was unable to prepare any recommendation regarding proposed legislation; because the Board has not yet taken any action indicating what legislation, if any, it desires to recommend to Congress.

At your request I submitted a memorandum on January 4th regarding proposed legislation which might be considered by the Board in connection with its forthcoming Annual Report. I now submit this revised draft of that memorandum, in order to bring the information up to date.

AMENDMENTS SPECIFICALLY RECOMMENDED TO CONGRESS
DURING 1929 AND COVERING WHICH BILLS HAVE BEEN
INTRODUCED IN CONGRESS.

(1) An amendment to Section 9 of the Federal Reserve Act to permit State member banks to establish foreign branches. - This amendment was recommended to Congress by the Board in its Annual Reports for the years 1927 and 1928, and in letters addressed to the Chairmen of the Banking and Currency Committees during 1929. Accordingly, a bill conforming to the Board's views was introduced in the Senate by Senator Norbeck on December 11, 1929 (S. 2605 - 71st Cong., 2nd Session) and was reported out without amendment on December 18, 1929 by the Senate Banking and Currency Committee. No further action thereon has been taken in the Senate and no similar bill has been introduced in the House.

(2) An amendment to Sections 6 and 9 of the Federal Reserve Act 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. - The enactment of such legislation was recommended by the Board in its Annual Reports for the years 1927 and 1928, and in letters addressed to the Chairmen of the Banking and Currency Committees under date of December 2, 1929. This legislation was introduced in the House on December 5, 1929 (H. R. 6604 - 71st Cong., 2nd Session), and in substantially the same form in the Senate on December 14, 1929 (S. 2666), and on December 20, the Senate bill was reported out without amendment by the Senate Banking and Currency Committee. H. R. 6604 was reported out favorably by the House on January 23, 1930, and I understand that this bill is on the House Calendar for February 5, 1930.

(3) An amendment making it discretionary with the Federal Reserve Board to assess the costs of examining State member banks against the bank examined. - The Board recommended the enactment of a bill of this kind in its 1927 and 1928 Annual Reports, and in letters addressed to the Chairmen of the Banking and Currency Committees during the year

1929. In the last Congress a bill for this purpose passed the Senate (S. 5349 - 70th Congress) but was not reported out by the House Banking and Currency Committee. Similar bills were introduced in the House but were never reported out. In the present Congress a bill was introduced in the Senate (S. 485 - 71st Cong., 1st Session) but it has not yet been reported out.

(4) An amendment to Section 9 of the Federal Reserve Act authorizing the Federal Reserve Board to waive the six months' notice of the intended withdrawal of a State member bank from the Federal Reserve System. - This amendment was recommended to Congress by the Board in its Annual Report for the year 1928, and in letters addressed to the Chairmen of the Banking and Currency Committees under date of April 16, 1929. On April 18, 1929, the Board voted to defer taking any action regarding this amendment and nothing further has been done by the Board since that date. Bills to amend the law in conformity with the Board's recommendations were introduced in the House and Senate during the present Congress (H. R. 2027 and S. 684 - 1st Session, 71st Cong.); and S. 684 was reported out without amendment on December 18, 1929. At the request of the Banking and Currency Committee of the House, H. R. 2027 was revised slightly by inserting a provision to the effect that the Board could waive the six months' notice requirement subject to such conditions as the Board might prescribe. The revised draft was submitted to Mr. McFadden by Governor Young under date of January 13, 1930, was introduced by him as H. R. 8877 on January 20, and was reported out favorably by the House Banking and Currency Committee on January 23, 1930. I understand that it is on the House Calendar for February 5, 1930.

AMENDMENTS RECOMMENDED IN 1927 and 1928 ANNUAL REPORTS.

(5) 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 Class B or Class C director of a Federal Reserve Bank. - This amendment was recommended to Congress by the Board in its Annual Reports for the years 1927 and 1928. On April 18, 1929, the Board voted to defer taking any action on this proposal and no further recommendation has been made since that date.

(6) An amendment exempting Federal Reserve Banks from attachment or garnishment proceedings before final judgment in any case or proceeding. - This amendment was recommended by the Board in its Annual Reports for the years 1927 and 1928. On April 18, 1929, the Board voted to defer taking any further action on this proposal and no further recommendation has been made since that date.

(7) An amendment to the Judicial Code restoring to the United States District Courts jurisdiction of suits by and against Federal Reserve Banks. - In its Annual Reports for the years 1927 and 1928 the Board recommended the enactment of an amendment of this kind. On April 18, 1929, the Board voted to defer taking any further action in connection with this proposal and no further recommendation has been made since that date.

(8) 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. - An amendment of this kind has been recommended to Congress by the Board in its Annual Reports for the years 1927 and 1928. In the 70th Congress a bill (H.R. 12349) was introduced on March 23, 1928, and under date of April 24, 1928, the Board addressed a letter to Congress in which it said that it was in sympathy with the general purposes of the bill. However, this bill was not reported out and no similar bill has since been introduced. On April 18, 1929, the Board voted to defer taking any further action on this amendment and no further recommendation has been made since that date.

OTHER AMENDMENTS CONSIDERED BY THE BOARD IN 1929.

In addition to the above, the Board has considered the following proposed amendments but has taken no definite action thereon in view of the position taken at the Board meeting of April 18, 1929, that action on such amendments should be deferred:

(9) An 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. The Agents' and Governors' Conferences of December 1929, recommended that the matter of reserves be submitted to a special committee for study and recommendation.

(10) 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." The Agents' and Governors' Conferences of December 1929, recommended that the matter of reserves be submitted to a special committee for study and recommendation.

(11) A complete revision of Section 19 adjusting, clarifying and simplifying the reserve requirements. The Agents' and Governors' Conferences of December 1929, recommended that this matter be submitted to a special committee for study and recommendation.

(12) An amendment requiring the approval of the Federal Reserve Board before charters are granted to new national banks.

(13) An amendment to Section 9 of the Federal Reserve Act requiring all State banks heretofore or hereafter admitted to membership in the System to comply at all times with the banking law of the States in which they are located.

AMENDMENTS RECOMMENDED BY DECEMBER, 1929

AGENTS' AND GOVERNORS' CONFERENCES.

In addition to the above, the following amendments recommended by the December, 1929, Agents' and Governors' Conferences may be worthy of consideration at this time:

(14) Amendment to the Bankruptcy Act providing that funds in the custody of the Federal Courts shall be deposited with member banks. - The Governors' Conference approved of an amendment of this kind, but the Board has not made any recommendation to Congress. A bill (S. 2950) was introduced in the Senate on January 6, 1930, however, providing that member banks of the Federal reserve system may be designated depositories of bankruptcy funds.

(15) Amendment to the National Bank Act limiting the amount of investment by a national bank in bank building and fixtures. - The Agents' Conference reported that an amendment of this kind is desirable.

(16) Amendment to Section 4 of the Federal Reserve Act to clarify the meaning of the phrase "electors voting" in that part of the section providing the method of counting ballots in elections of Federal Reserve Bank directors. - The Agents' and Governors' Conferences recommended such an amendment.

(17) Amendment to the Federal Reserve Act providing for a different distribution of earnings of Federal Reserve Banks to member banks and the Government and for the retirement of national bank notes. - The Agents' and Governors' Conferences favored the enactment of an amendment providing a more liberal distribution of Federal Reserve Bank earnings in the way of dividends.

In the 70th Congress, 2nd Session, a bill was introduced by Senator Glass on February 6, 1929 (S. 5723) to amend Section 7 of the Federal Reserve Act so as to provide for a more liberal distribution of the earnings of Federal Reserve Banks, and to amend Section 18 so as to provide for the retirement of national bank notes. With regard to the enactment of this bill, the Secretary of the Treasury addressed a letter to Congress stating that he was not inclined to favor legislation of this kind. The Board considered this letter before it was mailed and advised the Secretary that "while certain members of the Board are not necessarily opposed to the general idea of the amendment to Section 7, * * * they see no objection to transmittal of the attached letter, as written, as an expression of the views of the Secretary of the Treasury." The bill introduced by Senator Glass was never reported out by the Senate Banking and Currency Committee.

OTHER PROPOSED AMENDMENTS.

The Board may also wish to consider the following proposed amendments:

(18) An amendment to Section 9 of the Federal Reserve Act and Section 5240 of the Revised Statutes regarding examinations of member banks. - This amendment provides, among other things, that all examinations of member banks shall be under the jurisdiction of the Comptroller of the Currency, and that the expense of such examinations shall be paid by the Federal Reserve Board out of the proceeds of assessments levied against the Federal Reserve Banks, instead of being paid by the banks examined.

This amendment was prepared at the request of Governor Young and was submitted for the consideration of the Conference of Federal Reserve Agents in December, 1929, which recommended that the Board decline to give its approval to this proposed measure. Apparently the Board has taken no action on this recommendation.

(19) 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. - A provision to amend the law in this way was contained in the McFadden Bill when it was pending in Congress but it was stricken out of the bill by the Senate. At the time this provision was pending in the McFadden Bill it was approved by the Federal Reserve Board along with a number of other provisions and Congress was so advised. (See X-4500). The amendment was then 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. On April 18, 1929, the Board voted to defer taking any action on the proposal; but on October 18, 1929, the Board addressed a letter to Congressman Hudspeth, in reply to a letter asking for the Board's views on an amendment of this character, in which it was stated that the Board has not receded from its earlier position approving of such an amendment.

On December 18, 1929, as a result of a conference between this office and Mr. Thompson, from Congressman McFadden's office, there was prepared by this office a letter addressed to Congressman McFadden, enclosing a proposed draft of an amendment to amend the law as set out above. On January 13, 1930, Governor Young submitted this letter and proposed draft of amendment to Mr. McFadden; and on January 15, this draft was also submitted to Senator Sheppard by Governor Young. On January 23, Mr. McFadden introduced this draft in the House as H. R. 9046, but it has not yet been reported out or introduced in the Senate.

(20) An amendment to Section 22(a) of the Federal Reserve Act making it clear that the prohibition against examiners accepting loans and gratuities from member banks applies to State examiners. - Under date of November 13, 1929, I addressed a memorandum to the Board calling attention to the fact that a United States District Court had held that this provision of Section 22-(a) does not apply to State examiners. I recommended that the Board suggest to the Attorney General that it would be in the public interest not to accept

this decision as a correct interpretation of the law and that it would be advisable to appeal either this case or some other case where the record may be more favorable to the Supreme Court of the United States, with a view of having this decision reversed or overruled. I also recommended that the Board request the Attorney General to advise it if he is not inclined to adopt the above suggestion, in order that the Board may consider the advisability of recommending to Congress an amendment removing any doubt as to the applicability of this provision to State bank examiners. I also submitted a proposed letter to the Attorney General along this line, which was approved at the Board meeting on November 26th; but apparently neither this letter nor any similar letter has yet been sent to the Attorney General. Under these circumstances, the Board may desire to consider the advisability of recommending to Congress an amendment to Section 22(a) removing any doubt as to the applicability of that section to State bank examiners.

(21) An amendment to make the robbery or burglary of a member bank a Federal offense punishable through the Federal courts. - Under date of January 13, 1930, Mr. George J. Schaller, President of the Citizens First National Bank of Storm Lake, Iowa, and Class A director of the Federal Reserve Bank of Chicago, addressed a letter to Mr. Cunningham suggesting that it would help and strengthen the banking situation and would make friends for the Federal Reserve System, if the Federal Government would undertake the apprehension and prosecution in the Federal courts of all persons who commit crimes against national banks and State member banks of the Federal Reserve System and particularly such crimes as hold-ups and robberies. Mr. Cunningham has transmitted this letter to the Law Committee with a suggestion that the Board should recommend in its Annual Report an amendment making it a Federal offense punishable through the Federal courts to burglarize or rob any member bank. I understand that the Law Committee has reported favorably on this suggestion, but that the Board has not yet taken action on it.

Respectfully,

Walter Wyatt,
General Counsel.

WJ: sad - vdb