

October 1, 1930

Mr. James

Proposed amendments to
the Federal Reserve Act and Related
Statutes.

Mr. Wyatt-General Counsel.

Dear Mr. James:

In accordance with your request, I respectfully submit the following information with respect to proposed amendments to the Federal Reserve Act and other statutes affecting the Federal Reserve System which have been recommended to Congress within recent years or which have been considered by the Federal Reserve Board without making any recommendation to Congress:

AMENDMENTS RECOMMENDED TO CONGRESS BY THE
FEDERAL RESERVE BOARD.

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 director of a Federal reserve bank. - This amendment was recommended to Congress by the Board in its Annual Reports for the years 1927, 1928 and 1929, and in letters addressed to the Chairmen of the Banking and Currency Committees of the Senate and House under date of February 18, 1930. Accordingly, in the 2nd Session of the 71st Congress, Senator Brookhart on April 2, 1930, introduced a bill (S. 4079) containing this amendment. This bill was passed by the Senate on April 14, 1930, and although it was reported out by the House Banking and Currency Committee on May 26, 1930, it was not passed by the House.

An amendment to Section 9 of the Federal Reserve Act authorizing the Federal Reserve Board to require a State member bank to surrender its Federal reserve bank stock and to forfeit its membership whenever such bank has failed to comply with the applicable provisions of the banking laws of the State in which it is located. - This amendment was recommended to Congress by the Board in its Annual Report for the year 1929, but no bill conforming to the Board's recommendation was introduced in either the Senate or the House.

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, 1928 and 1929, and in letters addressed to the Chairmen of the Senate and House Banking and Currency Committees during 1929. In the 1st Session of the 71st Congress, Senator Norbeck introduced a bill (S. 1070) along the line of the amendment proposed by the Board; but this bill was never reported out by the Senate Banking and Currency Committee, and no similar bill was introduced in the House during this session. In the second session of this Congress, Senator Norbeck introduced on December 11, 1929, another bill (S. 2605) conforming to the Board's recommendations;

and this bill was passed by the Senate on April 14, 1930. On April 16, 1930, it was presented to the House and referred by that body to its Banking and Currency Committee. S. 2605 was not reported out by the Banking and Currency Committee of the House, and no similar bill was introduced in the House.

An amendment to Section 13 of the Federal Reserve Act increasing from 15 to 90 days the maximum maturity of advances made by Federal reserve banks to member banks on their promissory notes secured by paper eligible for rediscount or for purchase 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, 1928 and 1929, and in letters addressed to Congress under dates of January 16, 1926, April 24, 1928, and March 6, 1930. On January 18, 1926, Mr. McFadden, in the 1st Session of the 69th Congress, introduced a bill (H.R. 7894) conforming to the Board's views but no similar bill was introduced in the Senate during this Congress. In the 70th Congress, 1st Session, Mr. Sumners of Texas introduced on March 23, 1928, a similar bill (H.R. 12349) in the House; and in the 2nd Session of this Congress, Mr. Baird on April 8, 1930, and Mr. McFadden on May 1, 1930, also introduced bills of this kind in the Senate and House respectively (S. 4139 and H.R. 12068). None of the bills above referred to was ever reported out.

An amendment to Section 22 of the Federal Reserve Act making the robbery or burglary of any Federal reserve bank or member bank a Federal offense punishable through the Federal courts. - An amendment of this kind was incorporated in the earlier drafts of the McFadden Bill which later became known as the Act of February 25, 1927; and drafts of that bill containing such provisions were favorably reported by the Banking and Currency Committees of both the Senate and House of Representatives. These drafts of the bill, however, failed of enactment; and, when the bill was reintroduced at the next Congress, this amendment was omitted.

The amendment, however, was recommended to Congress by the Board in its Annual Report for the year 1929, and in letters addressed to the Chairmen of the Banking and Currency Committees of the Senate and House under date of February 12, 1930. Following the Board's recommendations, bills were introduced under dates of February 19 and April 4, 1930, by Congressman Hooper and Senator Walcott during the 2nd Session of the 71st Congress in the House and Senate respectively. These bills, however, were never reported out by either the House or Senate Banking and Currency Committees.

An amendment to Section 22 of the Federal Reserve Act to make it a crime to circulate false statements about or to blacklist a member bank. - There were contained in certain early drafts of the McFadden Bill, which later became known as the Act of February 25, 1927, amendments to the law to make punishable conspiracies to boycott or black list or to cause a general withdrawal of deposits from a member bank. These provisions, however, did not become law although the Federal Reserve Board approved a

draft of the bill containing such provisions. During the early part of 1930, a number of bills were introduced in the House the general purpose of which was to amend the law along the lines stated above, and, in response to a request for an expression of the views of the Board with reference to H. R. 10560, a bill on this subject introduced by Mr. McFadden in the 2nd Session of the 71st Congress, the Board under date of March 27, 1930, addressed a letter to Congress stating the enactment of the bill would be beneficial to member banks and to their depositors and stockholders. This bill was reported out by the House Banking and Currency Committee on April 24, 1930, but it did not pass the House; and no similar bill was introduced in the Senate.

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. - This amendment was recommended to Congress by the Board in its Annual Report for the year 1929, and in letters addressed to the Chairmen of the Banking and Currency Committees of the Senate and House under date of February 10, 1930. In the 2nd Session of the 71st Congress, Senator Norbeck on February 12, 1930, and Mr. Seiberling on February 19, 1930, introduced bills conforming to the Board's recommendations in the Senate and House, respectively (S. 3541 and H.R. 10070). S. 3541 was passed by the Senate on April 14th, and was presented to the House and referred by this body to its Banking and Currency Committee; but neither this bill nor H.R. 10070 were reported out by the House Banking and Currency Committee.

An amendment exempting Federal reserve banks from attachment or garnishment proceedings before final judgment in any case or proceeding. - The enactment of an amendment of this character was recommended to Congress by the Board in its Annual Reports for the years 1927, 1928 and 1929, and in letters addressed to the Chairmen of the Banking and Currency Committees of the Senate and House under date of February 14, 1930. Accordingly, in the 2nd Session of the 71st Congress, Mr. Fenn on February 18, 1930, and Mr. Norbeck on February 19, 1930, introduced bills conforming to the Board's recommendations in the House and Senate, respectively; but these bills were never reported out.

An amendment to the Judicial Code restoring to the United States District Court jurisdiction of suits by and against Federal reserve banks. - The Board has recommended the enactment of an amendment of this kind in its Annual Reports for the years 1927, 1928 and 1929, but no bills covering this subject have ever been introduced in Congress.

AMENDMENTS CONSIDERED BY FEDERAL RESERVE BOARD
BUT NOT RECOMMENDED TO CONGRESS.

Amendments providing for a more equitable distribution to member banks of earnings of Federal reserve banks. - During the years 1929 and 1930, a number of bills were introduced in Congress providing for a larger distribution of the earnings of Federal reserve banks among member banks, and

the Board has gone on record in its Annual Report for the year 1929 as saying that such proposals are subjects "which in the judgment of the Federal Reserve Board might well have the consideration of Congress in connection with any legislation affecting the status of member banks of the Federal Reserve System; but the problem involves certain practical difficulties, and the Board desires to study the subject further before recommending any specific amendment for this purpose."

On March 13, 1930, in response to a request for a report of the Treasury Department on S. 3564, a bill introduced in the 2nd Session of the 71st Congress to amend Section 7 of the Federal Reserve Act, the Secretary of the Treasury addressed a letter to Senator Norbeck stating that he had conferred with the Federal Reserve Board regarding this bill and that the Board disapproved of its adoption. It was stated that "the Federal Reserve Board favors a change in the existing law which would accord to member banks a somewhat larger percentage of the earnings of Federal reserve banks than they are now receiving, but the Board believes that the plan of distribution proposed in this bill should not be adopted". The Board's objection to this particular bill was lodged against the provision that after the payment of the 6% dividend to member banks and the creation of the 100% surplus fund, 10% of the net earnings shall then be paid into surplus, and the remainder, or 90% of such net earnings, which under the present law are paid to the United States as a franchise tax, would be distributed to the member banks on a pro rata basis.

As stated above, the Board has expressed the opinion that member banks should have a greater share in the excess earnings of Federal reserve banks, and the Federal Advisory Council and the December, 1929, Conferences of Federal Reserve Agents and Governors have also taken the position.

An amendment to Section 9 of the Federal Reserve Act and Section 5240 of the Revised Statutes regarding examinations of member banks. - This amendment provided, among other things, that all examinations of member banks should be under the jurisdiction of the Comptroller of the Currency, and that the expenses of such examinations should 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 December, 1929, Conferences of Federal Reserve Agents and Governors, which recommended that the Board decline to give its approval to this proposed measure. On February 6, 1930, the Board voted not to recommend the enactment of such an amendment.

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.

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".

An amendment completing revising Section 19 of the Federal Reserve Act so as to adjust, clarify and simplify the reserve requirements.

The Agents' and Governors' Conferences of December, 1929, recommended that the above three proposals be submitted to a special committee for study and recommendation, and the Board on February 6, 1930, voted to take no action on these proposals in view of the fact that this special committee had been appointed.

Amendment to the Bankruptcy Act providing that funds in the custody of the Federal courts shall be deposited with member banks. - The December, 1929, Conference of Federal Reserve Bank Governors approved of an amendment of this kind and on January 6, 1930, in the 2nd Session of the 71st Congress, Senator Walsh introduced a bill (S. 2950) providing that member banks may be designated depositories of bankruptcy funds. The Board has not specifically recommended that an amendment of this kind be enacted, but at its meeting of February 6, 1930, the Law Committee was authorized to conduct such negotiations as might be necessary to have Senator Walsh's bill, S. 2950, so amended as to provide that bankruptcy funds "shall" be deposited in member banks instead of "may" be so deposited; and on February 17, 1930, Mr. Harlin, acting for the Law Committee, addressed a letter to Senator Walsh suggesting that the wording of his bill be changed so as to accomplish this result. The bill was never reported out by the Senate Banking and Currency Committee and no similar bill was introduced in the House.

Amendment to the National Bank Act limiting the amount of investment by a national bank in bank building and fixtures. - The December, 1929, Conference of Federal Reserve Agents recommended this amendment, and on February 6, 1930, the Board voted to refer this proposal to the Comptroller of the Currency.

Amendment requiring the approval of the Federal Reserve Board before charters are granted to new national banks. - An amendment of this kind was recommended by recent Conferences of Federal Reserve Agents, but the Board voted on February 6, 1930, not to recommend the enactment of such an amendment.

Respectfully,

(S) Walter Wyatt,
General Counsel

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