FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7325

January 13, 1933.

SUBJECT: Extension of Provisions of Section 10(b) and the Second Paragraph of Section 16 of Federal Reserve Act, as Amended.

Dear Sir:

For your information there is transmitted herewith copy of a letter dated January 9, 1933, addressed to the Chairman of the Senate Committee on Banking and Currency by Governor Meyer in which the Federal Reserve Board recommended the enactment at this session of the Congress of appropriate legislation extending for at least one year from March 3, 1933, the authority conferred by section 10(b) and by the second paragraph of section 16 of the Federal Reserve Act as amended by the Act of February 27, 1932, known as the Glass-Steagall Act.

A similar letter bearing the same date was addressed to the Chairman of the House Committee on Banking and Currency.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN AND GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7325-a

Jan 9 1933

Honorable Peter Norbeck, Chairman,
Senate Committee on Banking and Currency,
United States Senate,
Washington, D. C.

Dear Mr. Chairman:

The Federal Reserve Board respectfully recommends that appropriate legislation be enacted at this session of the Congress extending for at least one year from March 3, 1933, the authority conferred by section 10(b) and by the second paragraph of section 16 of the Federal Reserve Act as amended by the Act of February 27, 1932, known as the Glass-Steagall Act.

The Glass-Steagall Act amended the Federal Reserve Act by adding thereto section 10(b), which authorizes the Federal re-reserve banks, until March 3, 1933, in exceptional and exigent circumstances and subject to the affirmative action of not less than five members of the Federal Reserve Board, to make advances to member banks which lack sufficient eligible and acceptable assets to enable them to obtain adequate credit accommodations from the Federal reserve banks by the customary methods. While demands upon the Federal reserve banks for accommodations under section 10(b) have not been large, the existence of the authority to extend such accommodations has been a helpful factor in the disturbed situation through which we have been passing and has enabled the Federal reserve banks to render service to individual member banks in a number of instances.

The Glass-Steagall Act amended the second paragraph of section 16 of the Federal Reserve Act so as to provide that until March 3, 1933, should the Federal Reserve Board deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, as collateral security for Federal reserve notes, direct obligations of the United States. This amendment provides that such authorization shall terminate on March 3, 1933, and such obligations shall be retired as security for Federal reserve notes. On May 5, 1932, the Federal Reserve Board authorized the Federal reserve banks to pledge direct obligations of the United States as collateral for Federal reserve notes and the procedure therefor was set out fully in the Federal Reserve Bulletin for the month of May, 1932, a copy of which is inclosed for your convenience. In the opinion of the Board, the authority granted by section 3 of the Glass-Steagall Act has served a very useful purpose.

In this connection, it may be stated that the Federal reserve agents and the Governors of the Federal reserve banks have recommended unanimously that the authority conferred by these provisions be extended for at least one year and that the Federal Advisory Council, at its meeting in Washington on November 17, 1932, adopted the following resolution:

> "It is the sense of the Federal Advisory Council that Congress be asked to extend for a period of at least one year the provisions of Section 10(b) and Section 3 of the Glass-Steagall Bill, H. R. 9203."

Honorable Peter Norbeck - (3)

While the Glass-Steagall Act was under consideration in Congress the question of the advisability of limiting to March 3, 1933, the period in which the authority conferred by the second and third sections thereof could be exercised was discussed and it was pointed out then that if experience should indicate the wisdom of extending the period, there would be ample time before its expiration for Congress to take the necessary action. The Federal Reserve Board feels that the Congress might well consider the enactment of these provisions in permanent form, with whatever safeguards may be deemed appropriate as to the exercise of the authority granted by them, but, in any event, it is the opinion of the Board that, in view of existing conditions, it would be highly desirable to extend such authority for at least one year beyond March 3, 1933.

Respectfully,

Eugene Meyer,
Governor.

Inclosure.