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"THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM"

Address before the Annual Convention
of the
Texas Bankers Association

by

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Mr. Chairman, Ladies and Gentlemen:

I have selected as the subject of my talk the "Board of Governors of the Federal Reserve System," which is the new name given by the Banking Act of 1935 to the organization in Washington formerly known as the Federal Reserve Board.

In discussing the Board, I wish to make it perfectly clear that I am not referring personally to the distinguished gentlemen who constitute the Board today or have served on the Board at various times in the past. On the contrary, I always think, and I am now speaking, of the Board as an institution or an organization, and I hope that you will interpret all of my remarks in this light.

The Federal Reserve System consists of three principal elements -- the member banks, the Federal Reserve banks, and the Board in Washington.

The member banks are as much a part of the Federal Reserve System as the Federal Reserve banks or the Board in Washington. They own all of the stock of the Federal Reserve banks and elect two-thirds of the directors. It is principally through the member banks that the Federal Reserve banks serve the public.

The System is fundamentally a cooperative arrangement by which member banks join together and pool a portion of their resources for mutual assistance. The member banks in each district make their contributions by depositing their reserves in their own Federal Reserve bank; and, when any member bank needs assistance, it goes to its own

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Federal Reserve bank in its own district.

The Federal Reserve banks are neither Government institutions nor private institutions. They are privately owned but they are devoted entirely to the public service. The Supreme Court of the United States has declared that banking is a business affected with a public interest. That is true of all banking business; but it applies to Federal Reserve banks with much greater force than it does to ordinary commercial banks.

The Federal Reserve System is not a central banking system but a regional banking system. This country is too vast and conditions in different parts of the country vary too much to make it feasible or desirable to have a single central bank for the entire country. Instead, therefore, we have twelve Federal Reserve banks, each serving a definite geographical area and managed by directors, officers and employees who live in and are familiar with the conditions in its district. However, each Federal Reserve bank is authorized, and may be required, to go to the assistance of any other Federal Reserve bank which needs assistance in handling any situation arising in its district.

With respect to matters affecting the country as a whole the activities of the twelve Federal Reserve banks are coordinated by the Board of Governors in Washington. The Board is given the broad power to exercise general supervision over the twelve Federal Reserve banks and certain specific powers designed to enable the Board to see that

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they pursue a banking policy which is uniform and harmonious for the country as a whole.

The fundamental characteristics of the Federal Reserve System were stated by Honorable Carter Glass in the official report which he made to the House of Representatives on the bill which became the original Federal Reserve Act. He said:

> " * * * The only factor of centralization which has been provided in the committee's plan is found in the Federal reserve board, which is to be a strictly Government organization created for the purpose of inspecting existing banking institutions and of regulating relationships between Federal reserve banks and between them and the Government itself. Careful study of the elements of the problem has convinced the committee that every element of advantage found to exist in cooperative or central banks abroad can be realized by the degree of cooperation which will be secured through the reserve-bank plan recommended, while many dangers and possibilities of undue control of the resources of one section by another will be avoided. Local control of banking, local application of resources to necessities, combined with Federal supervision, and limited by Federal authority to compel the joint application of bank resources to the relief of dangerous or stringent conditions in any locality are the characteristic features of the plan as now put forward. * * * It is proposed that the Government shall retain a sufficient power over the reserve banks to enable it to exercise a directing authority when necessary to do so, but that it shall in no way attempt to carry on through its own mechanism the routine operations of banking which require detailed knowledge of local and individual credit and which determine the actual use of the funds of the community in any given instance. In other words, the reserve-bank plan retains to the Government power over the exercise of the broader banking functions, while it leaves to individuals and privately owned institutions the actual direction of routine."

In this form of organization we have something which is characteristically American -- local management of local affairs, national

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management of national affairs, and the strength which lies in unity, coordination and cooperation.

The Board is an independent establishment carefully safeguarded from political influence and pressure.

Under the original Federal Reserve Act it consisted of the Secretary of the Treasury, the Comptroller of the Currency, and five members appointed by the President with the advice and consent ot the Senate. The appointive members were given ten year terms and their appointments were arranged so that not more than one term would expire within any two years. By the Agricultural Credits Act of 1923, a sixth appointive member was added to represent agriculture. By the Banking Act of 1933 the appointive members were given twelve year terms of office and the terms were rearranged accordingly.

By the Banking Act of 1935 the Board was given a still greater measure of independence by the amendments which removed from membership on the Board the Secretary of the Treasury and the Comptroller of the Currency and provided for a Board of seven members serving for terms of fourteen years each, with such terms arranged so that not more than one of them would expire in any two years. Furthermore, a member who has served a full term of fourteen years is ineligible for reappointment, so that his actions while in office will not be influenced by the desire to be reappointed.

In selecting the members of the Board, not more than one of whom may be selected from any one Federal Reserve district, the President

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is required to have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographical divisions of the country. Before taking office, the members of the Board are required to divest themselves of all interest in any bank, banking institution or trust company; and the members of the Board are made ineligible during the time they are in office and for two years thereafter to hold any office, position or employment in any member bank, except that this restriction does not apply to a member who has served the full term for which he was appointed.

Another feature of the original Federal Reserve Act, which has been preserved and which affords the Board very important protection against political pressure is the fact that it is not dependent upon Congress for appropriations but defrays all of its expenses out of assessments levied on the Federal Reserve banks.

Appointments to and promotions within the Board's staff, and appointments by the boards of directors of the Federal Reserve banks of their own officers and employees, are entirely free of politics and entirely on a merit basis. A real student of the subject told me recently that he believed that the Federal Reserve System comes closer to having an effective merit system of appointments and promotions than any other Governmental or business organization in the United States.

In view of the vast injury which could be done if the official actions of the Board of Governors and the Federal Reserve banks were

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influenced by politics or favoritism, it is vitally important that this merit system be preserved. It is not only important to the public interest, but it is of especial and immediate importance to every member bank. It is vitally important to keep banking out of politics and politics out of banking.

Nobody realizes this more thoroughly than the Board of Governors and no one has done more throughout the history of the Federal Reserve System to promote, protect and preserve the merit system than the Board in Washington. The present Board has demonstrated its purpose to maintain this fine tradition.

Some bankers feared that the amendment contained in the Banking Act of 1935 which makes the appointment of the presidents of the Federal Reserve banks subject to approval by the Board of Governors of the Federal Reserve System would inject an element of politics into the management of the Federal Reserve banks. That such is not the case is demonstrated by what has happened with respect to the appointments of presidents and first vice presidents of Federal Reserve banks.

Of the twelve presidents elected by the directors of the Federal Reserve banks, eleven were already the executive heads of such banks and one was the Chairman of his bank. Of these twelve, nine were promptly approved by the Board of Governors in Washington. Three were not approved because they were over seventy years of age and the Board felt that it would not be consistent with the purpose of the law or the System's established policy to approve for terms of five

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years persons who had already passed the compulsory retirement age adopted by the Federal Reserve System for its own guidance several years ago.

However, the vacancies created by the retirement of those three governors were all filled by men who were not only the free choice of the directors of the respective Federal Reserve banks, but were already serving those banks in official capacities. In other words, the vacancies were filled entirely from promotions within the existing official staffs of the Federal Reserve banks. Moreover, every one of the original first vice presidents appointed to date was selected by the directors of the Federal Reserve banks from the existing official staff of the Federal Reserve System and every one of them was promptly approved by the Board of Governors in Washington.

These appointments were all for statutory terms of five years, giving the appointees a greater measure of independence and permanence than they have ever enjoyed before.

The result has been that the established practice of making appointments to and promotions within the staffs of the Federal Reserve banks solely on the basis of merit and ability has been preserved and strengthened.

The most important and most widely discussed powers of the Board relate to national credit policies. These include the power to approve or disapprove discount rates of the Federal Reserve banks, to change reserve requirements or member banks, to prescribe margin

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requirements for loans by brokers and dealers in securities and by banks for the purpose of purchasing or carrying securities, and to regulate the rates of interest which may be paid by member banks on time and savings deposits. In addition, the Federal Open Market Committee, which consists of the seven members of the Board and five representatives of the Federal Reserve banks, is given control over the open market operations of the Federal Reserve banks - that is over the amount of credit which they can place in or remove from the money market through the purchase or sale of Government bonds, bankers' acceptances or other obligations of the kinds which Federal Reserve banks are authorized to purchase and sell in the open market. These powers are of vast importance; but they have been so thoroughly discussed during recent years in public speeches both in and out of Congress and in numerous articles by economists and financial writers that I shall not dwell upon them now.

The most numerous powers of the Board relate to the operations of the Federal Reserve banks and are a part of an intricate system of checks and balances designed to leave the management of local affairs and the granting of individual credits to the directors and officers of the Federal Reserve banks but at the same time to give the Board in Washington sufficient powers of general supervision and regulation, and in some instances the power of veto, to enable the Board to coordinate the activities of the twelve Federal Reserve banks and see that they carry out the purposes of the Federal Reserve Act and

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pursue policies which are harmonious for the country as a whole. However, most of these powers affect the member banks only indirectly, if at all, and an adequate discussion of them would require much more time than I have available.

I believe that you would be much more interested in a discussion of some of the powers entrusted by Congress to the Board which directly affect the daily operations of the member banks and especially some of the powers in connection with which the Board has issued regulations which member banks have been receiving in increasing numbers in recent years.

There have been complaints about the number of new regulations issued by the Board since the passage of the Banking Act of 1935, and you probably will be interested in that subject.

I sympathize with the member banks; because they have been through very trying times since 1929. After all the troubles which they experienced in the unhappy years leading up to the banking holiday in March, 1933, and the very difficult months of reorganization and rehabilitation following that period, they had to contend with many perplexing new provisions of law imposed upon them by the Banking Act of 1933. That was distinctly a reform measure resulting from public resentment over certain practices which were brought to light by the large number of bank failures in the years immediately preceding.

The Banking Act of 1933 made it necessary for the Board to issue a number of new regulations; and, before the banks finished familiarizing

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themselves with these new laws and regulations and adjusting themselves to them, we had the Banking Act of 1935 and a new set of regulations issued thereunder. The banks probably feel that they are being legislated and regulated to death; but an analysis of the situation will disclose that it is not as bad as it seems.

Since the passage of the Banking Act of 1935, the Board has issued nine regulations under that Act and one under the Securities and Exchange Act of 1934, making ten in all issued since last summer. Of these ten only two are new or additional regulations. Eight of them are merely revisions of pre-existing regulations, and most of the changes made are in the direction of greater liberality, simplicity and clarity.

In view of the fact that the Board designates its various regulations by the letters of the alphabet and has now reached the letter U, you may wonder what the Board will do when it has exhausted the alphabet. I personally hope that the Board will never exhaust the alphabet, but that it will be able in time to work out ways and means of simplifying its regulations and greatly diminishing their number.

There being one gap in the Board's series of regulations lettered from A to U, inclusive, the Board has outstanding at the present time twenty different regulations. This sounds like a tremendous volume of regulations; but it is not really as formidable as it sounds. Each regulation is limited to a particular subject and only a few affect the operations of member banks to any material extent. A quick review

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of the list of regulations will illustrate my point. With your indulgence, I shall take them up in alphabetical order and run through the entire list from A to U.

Regulation A relates to discounts and advances by Federal Reserve banks to member banks; but it does not affect member banks unless they are discounting with, or obtaining advances from, the Federal Reserve banks.

Regulation B relates to the purchase of bills of exchange, trade acceptances and bankers' acceptances by Federal Reserve banks on the open market. It only affects indirectly those member banks who issue bankers' acceptance credits or have occasion to sell bills of exchange, trade acceptances or bankers' acceptances on the open market.

Regulation C relates to the granting of bankers' acceptance credits by member banks, but affects only the relatively small number of member banks which issue such credits.

Regulation D relates to the reserves of member banks. It affects all member banks; but, it is something to which they have become adjusted over a long period of time and is of little practical importance at a time like the present when most member banks have reserves greatly in excess of the legal requirements.

Regulation E relates to the purchase of State and municipal warrants by Federal Reserve banks on the open market and has practically no effect on member banks.

Regulation F relates to trust powers of national banks and has

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recently been revised, effective June 1, 1936. It states the procedure under which national banks obtain and surrender permits to exercise trust powers and a few general principles regarding the management of the trust department, the investment of trust funds, and similar matters.

Regulation G relates to the rediscount by Federal Reserve banks of notes secured by adjusted service certificates and is practically a dead letter today.

Regulation H relates to the membership of State banks in the Federal Reserve System, but has no effect whatever upon national banks. Even as to State banks, it relates only to such matters as the procedure for obtaining or relinquishing membership in the System, the conditions upon which such banks will be admitted to the System, the circumstances under which they will be permitted to establish or maintain branches, and the publication of reports of member banks and their affiliates.

Regulation I relates to the increase or decrease of holdings by member banks of capital stock of Federal Reserve banks. It affects member banks only at the time of their organization or admission to the Federal Reserve System and at times when they increase or decrease their capital or surplus, consolidate with other banks, become insolvent, go into voluntary liquidation, or withdraw from membership in the Federal Reserve System.

Regulation J relates to the clearance and collection of checks by

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Federal Reserve banks. It affects all member banks, but only with respect to the terms and conditions upon which Federal Reserve banks receive checks from them for collection and make the credits therefor available to them.

Regulation K relates to the organization and regulation of foreign banking corporations, and is of no interest to member banks except the few owning stock in such foreign banking corporations or contemplating the organization of such corporations.

Regulation L relates to interlocking bank directorates under the Clayton Act and affects only those member banks which have directors, officers or employees serving also as directors, officers or employees of other banks.

Until March 1st, 1936, the Board had a Regulation M relating to open market operations by Federal Reserve banks. It did not affect member banks at all and has now been superseded by a regulation issued by the Federal Open Market Committee, which likewise does not affect member banks.

Regulation N pertains only to the relations of Federal Reserve banks with foreign banks and bankers, and has no effect upon member banks.

Regulation O relates to loans by member banks to their executive officers, but was issued to relieve the member banks from the more onerous provisions of the pre-existing criminal statute on this subject.

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Regulation P relates to holding company affiliates of member banks and affects only indirectly those member banks which are controlled by bank holding companies.

Regulation Q relates to the payment of interest on deposits by member banks and affects all member banks.

Regulation R relates only to those member banks who desire to have security dealers or underwriters serving as their officers, directors or employees.

Regulation S relates to loans by Federal Reserve banks to furnish working capital to established industries and affects only those member banks which participate in such loans or which make such loans themselves and obtain commitments from the Federal Reserve banks to take them off of their hands.

Regulation T relates to the extension and maintenance of credit by brokers, dealers and members of national securities exchanges, and does not affect any member banks except a very few which are members of national securities exchanges. Incidentally, it prescribes the procedure under which nonmember banks may qualify to make advances to brokers and dealers in securities.

Regulation U, which became effective May 1, 1936, relates to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange but probably will not have much effect on the operations of any member banks except those located in the large financial centers.

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Out of twenty regulations which the Board has in effect at the present time, therefore, I think it is fair to state that five of them have no effect whatever upon member banks, ten of them affect the member banks only occasionally or affect only a few of them, and only five of them materially affect the ordinary operations of all member banks.

Of these five, Regulation D, relating to reserves of member banks and Regulation J, relating to the clearance and collection of checks by Federal Reserve banks, are so well-established and so well known to all member banks that they require no further discussion at this time.

That leaves Regulation O, relating to loans to executive officers of member banks, Regulation Q, relating to the payment of interest on deposits, and Regulation U, relating to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange. I shall discuss these three regulations a little further.

Regulation O, relating to loans by member banks to their executive officers may not have gone as far in the direction of liberality as some member banks desired; but it is much more liberal and practical than what preceded it.

When the Banking Act of 1933 was under consideration by Congress there was much public resentment over the fact that a number of banks which had failed in the years immediately preceding had sustained large losses on loans made to their own executive officers. This

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resulted in a provision in the Banking Act of 1933 making it a criminal offense, punishable by fine or imprisonment, for any executive officer of a member bank to borrow from or otherwise become indebted to such bank or for any member bank to make any loan or extend credit in any other manner to any of its own executive officers.

The term "executive officer" was not defined, and the Board received a large number of requests for rulings as to what officers of member banks should be considered "executive officers" within the prohibitions of the Act. Unfortunately, the Board had to decline to express any opinion on these questions, because the enforcement of Federal criminal statutes is entirely within the jurisdiction of the Department of Justice and any opinion expressed by the Board would not have been binding upon that Department.

If the Board had expressed the opinion that certain officers of member banks were not "executive officers" within the meaning of the statute, they might have obtained loans from their banks in good faith and in reliance upon the Board's opinion. If the Department of Justice had subsequently adopted a different interpretation of the law such officers might have been prosecuted for obtaining loans which the Board had told them were entirely lawful. In the circumstances, the only thing the Board could do was to decline to express opinions on such questions.

It was contrary to the established policy of the Department of Justice to issue rulings interpreting penal statutes; and there was

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no place for the member banks to go to obtain authoritative rulings on such questions.

The situation was extremely unsatisfactory; and the Board and the Comptroller of the Currency jointly sought relief for the member banks in the Banking Act of 1935. As a result of their efforts, the section was rewritten by the Banking Act of 1935 so as to repeal the criminal penalties, thus withdrawing the subject entirely from the jurisdiction of the Department of Justice. It also authorized the Board to define the term "executive officer", to determine what should be deemed a borrowing, indebtedness, loan, or extension of credit and to prescribe rules and regulations to effectuate the purposes of the section and prevent evasions thereof. In addition, certain exceptions were made to the prohibitions of the section, one of which permits any member bank with the approval of a majority of its own board of directors, to extend credit to any executive officer thereof in an amount not exceeding $2,500.

Regulation O issued by the Board pursuant to the provisions of this section adds nothing whatever to the restrictions contained in the law itself, but consists principally of a definition of the term "executive officer" and answers to other questions on which member banks had been clamoring for interpretative rulings. Instead of creating additional burdens for the member banks, therefore, this regulation should be of great assistance to them.

There was one respect in which the Board could not see its way

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clear, in defining the term "executive officer", to make a concession which many banks desired but which others felt could not properly be made -- namely, the proposal to exempt honorary or inactive officers. After hearing all of the arguments on both sides, the Board adopted the view that a person who accepts the title of an executive officer and holds himself out to the public as an executive officer should be required to comply with the rules governing executive officers. I know that there are some who differ with this view; but I have never heard any one who could successfully answer the moral arguments upon which it is based.

Regulation Q relates to the payment of interest on deposits by member banks and also grows out of provisions added to the Federal Reserve Act by the Banking Act of 1933, which were later amended and modified by the Banking Act of 1935.

The underlying purposes which Congress had in mind when it enacted these provisions have never been authoritatively stated; but it is my personal opinion that they were two-fold: First, to put an end to cut-throat competition for deposits, which frequently led the banks to pay higher rates of interest than they could afford to pay and thus tended to weaken their financial condition; and, second, to compensate the banks somewhat for the assessments, which under another provision of the Banking Act of 1933, they were required to pay for the insurance of their deposits. The section was adopted for the benefit and protection of the banks; and it is in the interest of

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every bank to cooperate with the Board in its efforts to obtain compliance with the spirit as well as the letter of this law and to eliminate every form of unfair competition for bank deposits. The sole purpose of Regulation Q is to accomplish this result.

In view of the technical nature of the subject and the many points in respect to which there was a danger that some banks would attempt to gain unfair advantages over their competitors, it was necessary to go into considerable detail in defining the different classes of deposits, in determining what shall be considered a payment of interest, and in regulating the circumstances under which time and savings deposits may be withdrawn. Every effort was made, however, to produce a regulation which was as clear and practicable as possible and which eliminates as far as possible unfair competition between member banks. Many practical difficulties encountered under the Banking Act of 1933 and the regulation issued thereunder were corrected by the amendments contained in the Banking Act of 1935 and the revised regulation.

The Banking Act of 1935 contained an amendment authorizing the Federal Deposit Insurance Corporation to issue similar regulations governing insured nonmember banks in order to eliminate unfair competition between member and nonmember banks. In order to promote this result, the Board conferred with the Federal Deposit Insurance Corporation at every step in the preparation of its own regulation from August, 1935, until the Board's regulation was issued about the

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first of December; and the Board had every reason to expect that the Federal Deposit Insurance Corporation's regulation would be substantially the same as the Board's. The regulation of the Federal Deposit Insurance Corporation, however, which was issued over a month after the Board's, differed in a number of respects from the Board's regulation and gave nonmember banks some competitive advantages over member banks. Every effort is being made to reconcile these differences; and it is hoped that they will be successful.

Regulation U, which became effective May 1st, 1936, and which was issued pursuant to the Securities Exchange Act of 1934, governs loans by banks for the purpose of purchasing or carrying stocks registered on national securities exchanges. Unlike the Board's other regulations, it applies to nonmember banks as well as member banks.

The Board could have spared itself a great amount of trouble and expense by leaving this subject to regulation by the Federal Trade Commission or the Securities and Exchange Commission, as proposed in the original bill. But Governor Black and other members of the Board at that time felt that the banks were already subject to regulation by too many different supervisory authorities and that they would fare better if this additional duty were performed by the Board instead of some other agency less familiar with practical banking problems. Governor Black, therefore, persuaded Congress to impose this duty upon the Board instead of the Securities and Exchange Commission, even though, in order to accomplish this result, the Board

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also had to accept the burden of regulating the extension of credit by brokers, dealers and members of national securities exchanges, which it was very reluctant to do.

In the preparation of Regulation U every effort was made to make it as short and simple as possible and to interfere no more with the ordinary operations of the banks than is absolutely necessary to accomplish the purpose of the regulation, which is to prevent the excessive use of bank credit for the purchasing or carrying of securities.

The regulation applies to no loans except those made after May 1, 1936 which are secured by stocks and are made for the purpose of purchasing or carrying stocks registered on a national securities exchange.

If a loan is not secured directly or indirectly by stocks, the regulation has no application to it and the bank need not inquire into the purpose of the loan. It is recognized that this leaves the regulation open to the possibility of some evasion; but it was believed better to accept this risk than to affect every loan a bank makes in order to regulate a relatively small portion of them. It is believed that most of the bankers will endeavor in good faith to comply with the regulation and will not make loans for the purpose of purchasing or carrying stocks without requiring the customers to pledge such stocks as collateral.

Even if a loan is secured by stocks the regulation does not

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apply to it if the loan is made for a commercial, agricultural or industrial purpose or for any other purpose except the purpose of purchasing or carrying listed stocks. If the bank desires to do so for its own protection, it can obtain a written statement from the borrower or from one of the bank's own officers that the loan is not for the purpose of purchasing or carrying stocks. If such a statement is obtained in good faith the loan is completely exempted from the regulation.

Even if a loan is secured by stocks and the bank is unwilling to inquire into its purpose, the regulation will not be violated if the amount of the total loans to that customer does not exceed forty-five per cent of the current market value of the stocks pledged as collateral.

The net practical result is that a bank need not think about the regulation except with respect to loans that are secured directly or indirectly by stocks when the amount of the borrower's indebtedness exceeds forty-five per cent of the current market value of the stocks securing such indebtedness. Even with respect to this limited class of loans, the banker can forget about the regulation if he obtains in good faith a written statement from the customer or from one of the bank's own officers that the loan is not for the purpose of purchasing or carrying stocks.

I think it is fair to say, therefore, that the Board succeeded in promulgating a regulation which does not interfere with the

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ordinary operations of the banks any more than is absolutely necessary to accomplish the purposes of the regulation.

While I am on the subject of regulations, I would like to tell you something about the procedure followed in preparing them.

A tentative draft of each proposed regulation is sent to all the Federal Reserve banks with a request that they give the Board the benefit of their criticisms and suggestions. In addition to studies and discussions by their officers and counsel, the Federal Reserve banks frequently consult some of the member banks about these tentative drafts. The criticisms and suggestions resulting from these studies, discussions and consultations are transmitted to the Board in writing.

Copies of the tentative drafts of all regulations affecting member banks are also sent to the American Bankers Association for study by a committee representing the Association. Special committees are appointed by the President of the Association for this purpose and the members of each special committee are practical operating officers of member banks carefully selected on the basis of outstanding ability and special familiarity with the particular subject dealt with in the regulation. If there is anything impractical or undesirable in the proposed regulation these men are sure to find it and bring it to light.

And, believe me, these committees really work. After each member has made a thorough study of the tentative draft sent to him for

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that purpose, they meet, exchange views on the subject and formulate their tentative views as a committee. After it has finished its own deliberations, the committee has a joint conference with the members of the Board and its staff, at which there is a full and free round table discussion of every point about which any question has been raised.

Following this joint conference the committee prepares and files its written report and copies are furnished to every member of the Board and every division of its staff. Furthermore, in our final report to the Board, the staff has to tell the Board what it thinks should be done about every definite recommendation made by the American Bankers Association committee.

After all of this study, the regulations are taken up by the Board for final action; and there is a further discussion of the regulation between the members of the Board and the members of the staff and frequently further changes are made in the regulation before it is finally adopted.

While it is impossible to reconcile all conflicting viewpoints or to adopt all suggestions made from these various different sources, nevertheless it is believed that this thorough discussion and the attending criticisms and suggestions from so many different sources tend to produce regulations which are as reasonable and workable as it is possible to produce by any method. Certainly it provides elaborate safeguards against the danger of the issuance of regulations

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which are undesirable or unworkable from a practical banking standpoint.

Probably the most important of these safeguards is the precaution which the Board takes in seeking the cooperation of the American Bankers Association. This practice was instituted at the suggestion of Chairman Eccles and has produced splendid results. The Board has received the finest kind of cooperation from the American Bankers Association, and I believe that the results have been very constructive and helpful. President Fleming and the other officials of the Association are rendering a very fine public service in this and many other respects, and not only the bankers but the general public owe them a large debt of gratitude.

In conclusion, please permit me to remind you that the Federal Reserve System is not something separate and apart from the member banks. They are as much a part of it as the Federal Reserve banks or the Board in Washington; and it is very much in their interest and in the public interest for them to cooperate with the Board in every possible way and to join with the Board and the Federal Reserve banks in their efforts to improve our banking system, in order that it may render to this great country of ours the greatest possible public service.

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