

CURRENCY BILL NOW A LAW; VITAL TO WHOLE NATION



CARTER GLASS.

Chief Features of New Federal Reserve Act Here Presented—Federal Board of Seven Members to Supervise Banking System of the Country.



R. L. OWEN.

Eight to Twelve Reserve Banks to Be Established in Various Parts of the Land—Enacts Money Reforms, Particularly With Regard to Farmers.

THE federal reserve act is now a part of the law of the land. With President Wilson's signature to the new Glass-Owen currency reform bill the country looks forward to the practical working out of the act. The law is in part as follows:

An act to provide for the establishment of federal reserve banks to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States and for other purposes.

That the short title of this act shall be the "federal reserve act."

Sec. 2. As soon as practicable the secretary of the treasury, the secretary of agriculture and the comptroller of the currency, acting as "the reserve bank organization committee," shall designate not less than eight nor more than twelve cities to be known as federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such federal reserve cities.



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NAMING RESERVE BANKS.

To Take Title of Principal City in Reserve District.

The said committee shall supervise the organization in each of the cities designated of a federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee every national banking association in the United States is hereby required and every eligible bank in the United States and every trust company within the District of Columbia is hereby authorized to signify in writing within sixty days after the passage of this act its acceptance of the terms and provisions hereof.

When the organization committee shall have designated the cities in which federal reserve banks are to be organized and fixed the geographical limits of the federal reserve districts every national banking association within that district shall be required within thirty days after notice from the organization committee to subscribe to the capital stock of such federal reserve bank in a sum equal to 6 per cent of the paid up capital stock and surplus of such bank.

Any national bank failing to signify its acceptance of the terms of this act within the sixty days aforesaid shall cease to act as a reserve agent upon thirty days' notice to be given within the discretion of the said organization committee or of the federal reserve board.

Should any national banking association in the United States now organized fall within one year after the passage of this act to become a member bank under the provisions herebefore stated or fail to comply with any of the provisions of this act applicable thereto all of the rights, privileges and franchises of such association granted to it under the national bank act or under the provisions of this act shall be thereby forfeited.

No individual, copartnership or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than \$10,000 par value of stock in any federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the federal reserve bank by the chairman of the board of directors of such bank.

Should the subscription of stock by banks and the public be inadequate the government itself may subscribe for stock. Stock not held by member banks shall be voted by Class C directors only.

RESERVE BANK BRANCHES.

Regional Institutions Empowered to Establish Sub-Banks.

No federal reserve bank shall commence business with a subscribed capital less in amount than \$3,000,000.

Sec. 3. Each federal reserve bank

shall establish branch banks within the federal reserve district in which it is located and may do so in the district of any federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under the rules and regulations approved by the federal reserve board. Directors of branch banks shall possess the same qualifications as directors of the federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the federal reserve board, and they shall hold office during the pleasure, respectively, of the parent bank and the federal reserve board. The reserve bank shall designate one of the directors as manager.

Sec. 4. Upon the filing of certificates with the comptroller of the currency the said federal reserve bank shall become a body corporate and as such and in the name designated in such organization certificate shall have power—

First.—To adopt and use a corporate seal.

Second.—To have succession for a period of twenty years from its organization unless it is sooner dissolved by an act of congress or unless its franchise becomes forfeited by some violation of law.

Third.—To make contracts.

Fourth.—To sue and be sued, complain and defend, in any court of law or equity.

Fifth.—To appoint by its board of directors, elected as hereinafter provided, such officers as are not otherwise provided for in this act, to define their duties, require bonds of them and fix the penalty thereof, to dismiss such officers or any of them as may be appointed by them at pleasure and to appoint others to fill their places.

Sixth.—To prescribe by its board of directors bylaws not inconsistent with law regulating the manner in which its general business may be conducted and the privileges granted to it by law may be exercised and enjoyed.

Seventh.—To exercise by its board of directors or duly authorized officers or agents all powers specifically granted by the provisions of this act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this act.

Eighth.—Upon deposit with the treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks to receive from the comptroller of the currency circulating notes in blank, registered and counter-signed as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law which relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the amount of the capital stock of such federal reserve bank.

But no federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the comptroller of the currency to commence business under the provisions of this act.

CLASSES OF DIRECTORS.

Board of Nine to Control Each Reserve Bank.

Every federal reserve bank shall be conducted under the supervision and control of a board of directors.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years and divided into three classes, designated as Classes A, B and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock holding banks.

Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, in agriculture or in some other industrial pursuit.

Class C shall consist of three members, who shall be designated by the federal reserve board. When the necessary subscriptions to the capital stock have been obtained for the organization for any federal reserve bank the federal reserve board shall appoint the Class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman the organization committee shall

exercise the powers and duties appertaining to the office of chairman in the organization of such federal reserve bank.

No senator or representative in congress shall be a member of federal reserve board or an officer or a director of a federal reserve bank.

No director of Class B shall be an officer, director or employee of any bank.

No director of Class C shall be an officer, director, employee or stockholder of any bank.

Class C directors shall be appointed by the federal reserve board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the federal reserve bank and as "federal reserve agent." He shall be a person of tested banking experience, and in addition to his duties as chairman of the board of directors of the federal reserve bank he shall be required to maintain under regulations to be established by the federal reserve board a local office of said board on the premises of the federal reserve bank.

Sec. 5. The capital stock of each federal reserve bank shall be divided into shares of \$100 each.

Division of Earnings.

Sec. 7. After all necessary expenses of a federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met all net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to 40 per centum of the paid in capital stock of such bank.

The net earnings derived by the United States from federal reserve banks shall, in the discretion of the secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States. Reserve banks shall not be taxed except upon real estate.

Section 8 amends the existing banking laws, so that stockholders owning 51 per cent of the stock of banks other than national banks can convert their organizations into national banks.

Section 9 describes how state banks may become members of reserve banks.

FEDERAL RESERVE BOARD.

Seven Members, Five of Whom Are to Get \$12,000 a Year Each.

Sec. 10. A federal reserve board is hereby created, which shall consist of seven members, including the secretary of the treasury and the comptroller of the currency, who shall be members ex officio, and five members appointed by the president of the United States, by and with the advice and consent of the senate. In selecting the five appointive members of the federal reserve board not more than one of whom shall be selected from any one federal reserve district, the president shall have due regard to a fair representation of the different geographical divisions of the country. The five members of the federal reserve board appointed by the president and confirmed as aforesaid shall devote their entire time to the business of the federal reserve board and shall each receive an annual salary of \$12,000, together with actual necessary traveling expenses, and the comptroller of the currency, as ex officio member of the federal reserve board, shall in addition to the salary now paid him as comptroller of the currency, receive the sum of \$7,000 annually for his services as a member of said board. The members of said board, the secretary of the treasury, the assistant secretary of the treasury and the comptroller of the currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position or employment in any member bank. Of the five members thus appointed by the president at least two shall be persons experienced in banking or finance. One shall be designated by the president to serve for two, one for four, one for six, one for eight, one for ten, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the president. Of the five persons thus appointed one shall be designated by the president as governor and one as vice governor of the federal reserve board. The governor of the federal reserve board, subject to its supervision, shall be the acting executive officer.

The federal reserve board shall have power to levy semiannually upon the federal reserve banks in proportion to their capital stock and surplus an assessment sufficient to pay its estimated expenses and salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the federal reserve board shall be held in Washington, District of Columbia, as soon as may be after the passage of this act at a date to be fixed by the reserve bank organization committee. The secretary of the treasury shall be ex officio chairman of the federal reserve board. No member of the federal reserve board shall be an officer or director of any bank, banking institution, trust company or federal reserve bank nor hold stock in any bank, banking institution or trust company, and before entering upon his duties as a member of the federal reserve board he shall certify under oath to the secretary of the treasury that he has complied with

this requirement. Whenever a vacancy shall occur other than by expiration of term among the six members of the federal reserve board appointed by the president, as above provided, a successor shall be appointed by the president, with the advice and consent of the senate, to fill such vacancy.

The president shall have power to fill all vacancies that may happen on the federal reserve board during the recess of the senate by granting commissions which shall expire thirty days after the next session of the senate convenes.

RESERVE BOARD POWERS.

Has Controlling Hand on Banking of the Nation.

Sec. 11. The federal reserve board shall be authorized and empowered:

(a) To examine at its discretion the accounts, books and affairs of each federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each federal reserve bank and a consolidated statement for all federal reserve banks. Such statements shall show in detail the assets and liabilities of the federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by federal reserve banks.

(b) To permit or on the affirmative vote of at least five members of the reserve board to require federal reserve banks to rediscount the discounted paper of other federal reserve banks at rates of interest to be fixed by the federal reserve board.

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this act: Provided, that it shall establish a graduated tax upon the amounts by which the reserve requirements of this act may be permitted to fall below the level hereinafter specified; and provided, further, that when the gold reserve held against federal reserve notes falls below 40 per centum, the federal reserve board shall establish a graduated tax of not more than 1 per centum upon such deficiency until the reserve falls to 32½ per centum, and when said reserve falls below 32½ per centum, a tax at the rate increasing of not less than 1½ per centum upon each 2½ per centum or fraction thereof that such reserve falls below 32½ per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the federal reserve board.

(d) To supervise and regulate through the bureau under the charge of the comptroller of the currency the issue and retirement of federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the comptroller to the federal reserve agents applying therefor.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section 20 of this act, or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any federal reserve bank, the cause of such removal to be forthwith communicated in writing by the federal reserve board to the removed officer or director and to said bank.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of federal reserve banks.

(h) To suspend, for the violation of any of the provisions of this act, the operations of any federal reserve bank, to take possession thereof, administer the same during the period of suspension and when deemed advisable to liquidate or reorganize such bank.

(i) To require bonds of federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions or services specified in this act and to make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of state or local law, the right to act as trustee, executor, administrator or registrar of stocks and bonds under such rules and regulations as the said board may prescribe.

(l) To employ such attorneys, experts, assistants, clerks or other employees as may be deemed necessary to properly conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks and other employees shall be appointed without regard to the provisions of the act of Jan. 16, 1883 (volume 22, United States statutes at large, page 403), and amendments thereto or any rule or regulation made in pursuance thereof.

Section 12 creates a federal advisory council, consisting of one member from each federal reserve district, which is empowered to confer with the federal reserve board and make representations regarding the business of the board.

RESERVE BANK POWERS.

Principal Functions of the New Regional Institutions.

Sec. 13. Any federal reserve bank may receive from any of its member banks and from the United States deposits of current funds in lawful money, national bank notes, federal reserve notes or checks and drafts upon member banks, payable upon presentation or solely for exchange purposes may receive from other federal reserve banks deposits of current funds in lawful money, national bank notes or checks and drafts upon solvent member or other federal reserve banks payable upon presentation.

Upon the indorsement of any of its member banks, with a waiver of demand notice and protest by such bank, any federal reserve bank may discount notes, drafts and bills of exchange arising out of actual commercial transactions—that is, notes, drafts and bills of exchange issued or drawn for agricultural, industrial or commercial purposes or the proceeds of which have been used or are to be used for such purposes, the federal reserve board to have the right to determine or define the character of the paper thus eligible for discount within the meaning of this act. Nothing in this act contained shall be construed to prohibit such notes, drafts and bills of exchange secured by staple agricultural products or other goods, wares or merchandise from being eligible for such discount, but such definition shall not include notes, drafts or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities except bonds and notes of the government of the United States. Notes, drafts and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, provided that notes, drafts and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the federal reserve bank, to be ascertained and fixed by the federal reserve board.

Discounting Acceptances.

Any federal reserve bank may discount acceptances which are based on the importation or exportation or domestic shipment of goods and which have a maturity at time of discount of not more than three months and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid up capital stock and surplus of the bank for which the discounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company or firm or corporation rediscounted for any one bank shall at no time exceed 10 per centum of the unimpaired capital and surplus of said bank, but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months to run, but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid up capital stock and surplus.

Open Market Operations.

Sec. 14. Any federal reserve bank may, under rules and regulations prescribed by the federal reserve board, purchase and sell in the open market at home or abroad, either from or to domestic or foreign banks, firms, corporations or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this act made eligible for rediscount with or without the indorsement of a member bank.

Every federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange federal reserve notes for gold, gold coin or gold certificates and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which federal reserve banks are authorized to hold;

(b) To buy and sell at home or abroad bonds and notes of the United States and bills, notes, revenue bonds and warrants with a maturity from date of purchasing of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any state, county, district, political subdivision or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the federal reserve board;

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions as hereinafter defined;

(d) To establish from time to time, subject to review and determination of the federal reserve board, rates of discount to be charged by the federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;

(e) To establish accounts with other federal reserve banks for exchange purposes and, with the consent of the federal reserve board, to open and maintain banking accounts in foreign countries, appoint correspondents and establish agencies in such countries

whenever it may deem best for the purpose of purchasing, selling and collecting bills of exchange, and to buy and sell with or without its indorsement through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.

Section 15 provides that money held in the general fund of the United States treasury, except the 5 per centum fund for the redemption of outstanding national bank notes and the funds provided in the act for the redemption of federal reserve notes, may be deposited in federal reserve banks which shall act as fiscal agents and that the funds of the Philippine Islands, the postal savings and any other government funds must be deposited in federal reserve banks.

Section 16 provides for the issuance of federal reserve notes to federal reserve banks, redeemable in gold on demand at the treasury department or in gold or lawful money at any federal reserve bank. The collateral security shall be notes and bills accepted for rediscount under section 13. Federal reserve banks shall have a gold reserve of 40 per cent of their federal reserve notes and shall maintain in the United States treasury in gold a reserve of not less than 5 per cent of the federal reserve notes for their redemption.

Section 17 repeals laws requiring national banks to deposit government bonds with the United States treasurer.

Section 18 provides a plan for retiring the 2 per cent bonds on which the present currency is based. Under the plan \$25,000,000 worth of these bonds will be purchased each year, beginning two years after the system is placed in operation, by the new regional banks from member banks. On one-half of its holdings each regional bank may issue currency. The remainder will be refunded in 3 per cent one year treasury bonds or 3 per cent one year treasury notes, which the banks must agree to renew each year for thirty years.

Section 19 describes how member banks shall establish and maintain reserves.

Section 21 provides for the examination of each member bank by the comptroller of the currency at least once a year, for a special examination of member banks when desired by federal reserve banks and for a special examination of any federal reserve bank upon the application of any member bank.

PENALTY FOR DISHONESTY.

Sanctioning With Bank Examiners Made Criminal Offense.

Sec. 22. No member bank or any officer, director or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both, may be fined a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both.

Section 23 provides that national bank stockholders shall be responsible for all contracts, debts and engagements of their banks to the amount of their stock at par value in addition to the amount invested in such stock. If they transfer their stock within sixty days before the failure of their banks they shall be liable to the same extent in case the transferee fails to meet such liability.

Loans on Farm Lands.

Sec. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unimproved farm land situated within its federal reserve district, but no such loan shall be made for a longer time than five years nor for an amount exceeding 50 per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to 25 per centum of its capital and surplus or to one-third of its time deposits, and such banks may continue hereafter, as heretofore, to receive time deposits and pay interest on the same.

The federal reserve board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

Section 25 authorizes national banking associations possessing a capital and surplus of \$1,000,000 or more to establish foreign branches under the direction of the federal reserve board.

Section 26 authorizes the secretary of the treasury to strengthen the gold reserve by borrowing gold on United States bonds or by selling them.

Section 27 extends from June 30, 1914, until June 30, 1915, the life of an act authorizing national currency associations, the issuance of additional national bank circulation and the creation of a national monetary commission. It re-enacts certain United States banking statutes amended by an act of May 30, 1908, subject to such amendments or modifications as are contained in the new currency law. It amends the May 30, 1908, act in regard to the taxation of circulating notes held by national banking associations and secured otherwise than by United States bonds.

Section 29 provides that if any part of the act is declared invalid by a court the judgment shall not affect the remainder of the act.