Federal Accounting Standards Advisory Board

**August 16, 2012**

Memorandum

To: Members of the Board

From: Wendy M. Payne, Executive Director
Melissa Loughan, Assistant Director

Subj: **Federal Reporting Entity – Federal Reserve Questions[1] - Tab A**

## MEETING OBJECTIVES

- To provide an educational session and respond to questions posed by a member regarding the Federal Reserve System

## BRIEFING MATERIAL

Board member Sam McCall submitted questions regarding the Federal Reserve System to staff shortly before the June board meeting. The attached memo presents Mr. McCall's questions followed by staff responses. Attachments also provide (1) summary information describing the Federal Reserve System, (2) relevant excerpts from the publication *The Federal Reserve System-Purposes and Functions,* and (3) Sections 1 through 19 of the Federal Reserve Act.

## BACKGROUND

Mr. Donald V. Hammond, Deputy Director, Division of Reserve Bank Operations and Payment Systems, Federal Reserve Board of Governors, will join us at the meeting. In addition to his role at the Federal Reserve, Mr. Hammond represented Treasury on the Board during his tenure as fiscal assistant secretary. This provides an excellent opportunity for those members who were not serving on the Board during prior visits by Federal Reserve staff to learn more about the Federal Reserve.

If you have any questions before the meeting, please contact staff.

[1] The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

**MEMO WITH STAFF RESPONSES**

To: Wendy Payne
From: Sam McCall
Re: Federal Reserve Banks
Date: June 6, 2012

As you are aware, there have been several discussions about the Federal Reserve Board and Federal Reserve Banks over the last several months. As the most recent member to join the Board, I have tried to get a feeling about how the Federal Reserve Board and Banks relate to the federal government from the FRB representatives attending FASAB meetings and from other Board members that have more background on the topic from discussions before I came on the Board in January 2012.

I believe at this point the Federal Reserve Banks meet the inclusion principles in at least two areas. Where we go from here as to whether they are core or non-core and how that information and relationship is to be reported will be further addressed and refined as we go forward. Even so, I have the following questions that I would like to have input on as follows:

1. In David Mosso's January 23, 2012 paper prepared for the Fordham Conference on "The Question – Representation Without Accountability," he observes that if the Federal Reserve Banks were consolidated into the US Financial Report, total accrual basis liabilities would increase by $2.0 trillion dollars. If possible, I would like for staff to provide to me a worksheet that shows the financial statements (balance sheet presentations may be all that is necessary) of the US Government in one column at a high level and the Federal Reserve Banks in another column at a high level and then the entries that would be made if the Banks were consolidate with the US Government financial statements.

   **Response:** See condensed worksheet on the following page.

**Combined Federal Reserve Banks**

**Consolidated Fin Report of the US Government**

*Amounts are provided solely to illustrate materiality. Because the dates do not align a one for one match is not possible.*

| **Ended December 31, 2011 (millions)** | | **Ended September 30, 2011 (millions)** | |
|---|---|---|---|
| **ASSETS** | | **Assets:** | |
| Gold certificates | $ 11,037 | Cash and other monetary assets | $ 177,000 |
| Special drawing rights certificates | 5,200 | Accounts and taxes receivable, net (Note 3) | 106,300 |
| Coin | 2,306 | Loans receivable and mortgage-backed securities, net (Note 4) | 772,100 |
| **All Loans** | 9,255 | | |
| **System Open Market Account:** | | | |
| Treasury securities, net | 1,750,277 | TARP direct loans and equity investments, net (Note 5) | 80,100 |
| Government-sponsored enterprise debt securities, net | 107,828 | | |
| Federal agency and government-sponsored enterprise mortgage-backed securities, net | 848,258 | Non-TARP Investments in American International Group, Inc. (Note 6) | 10,900 |
| Other | 164,999 | | |
| Accrued interest receivable | 19,710 | Other assets (Notes 10 and 12) | 1,560,900 |
| **Total assets** | 2,918,870 | **Total assets** | 2,707,300 |
| **LIABILITIES AND CAPITAL** | | **Liabilities:** | |
| Federal Reserve notes outstanding, net | $ 1,034,052 | Accounts payable (Note 13) | 63,400 |
| **System Open Market Account:** | | | |
| Securities sold under agreements to repurchase | 99,900 | Federal debt securities held by the public and accrued interest (Note 14) | 10,174,100 |
| **Deposits:** | | | |
| Depository institutions | 1,562,253 | Federal employee and veteran benefits payable (Note 15) | 5,792,200 |
| Treasury, general account | 85,737 | Other liabilities (Notes 10 and 19) | 1,463,000 |
| Accrued interest on Federal Reserve notes | 900 | **Total liabilities** | **17,492,700** |
| Other liabilities | 82,230 | Contingencies (Note 22) and Commitments (Note 23) | |
| **Total liabilities** | **2,865,072** | **Net position:** | |
| Capital paid-in | 26,899 | Earmarked funds (Note 24) | 748,200 |
| Surplus | 26,899 | Non-earmarked funds | (15,533,600) |
| **Total capital** | 53,798 | **Total net position** | (14,785,400) |
| **Total liabilities and capital** | $ 2,918,870 | **Total liabilities and net position** | $ 2,707,300 |

| | |
|---|---|
| Eliminated | Portion would eliminate. |
| Largest New Item on CFR Balance Sheet | Payable to Treasury - may eliminate |

I would also like to see the entries (with explanation) that would be made to address all points made in Mr. Mosso's paper (if correct) relating to the Federal Reserve Banks (pages 10-11 of his paper). With due respect to Mr. Mosso, if there are weaknesses in his observations relating to consolidation of the Federal Reserve Banks with the US Governments financial statements, please provide the alternative viewpoints. However, at this point, his comments seem worthy of further consideration.

**Response:** See Mr. Mosso's comments followed by staff comments.

**Excerpt David Mosso's Comments relating to entries:**

Consolidating the Federal Reserve throws light on the money creation process, commonly called the printing press. It works like this. The Treasury sells securities to finance the federal deficit. That is roughly neutral with respect to the money supply – what the Treasury takes out of the money supply by borrowing, it puts back in with deficit spending. Now if the Federal Reserve buys Treasury securities in the market, the effect in the consolidated balance sheet is a reduction in Treasury securities held by the public and an increase in member bank reserves, the base of the money supply.

The net effect of those transactions – selling Treasuries with deficit spending, and buying Treasuries with credit to member bank reserves – is that the Treasury securities transactions cancel out in consolidation leaving an increase in deficit spending and an increase in the money supply. The printing press transforms federal debt from one form of federal liability, Treasury securities held by the public, to another form of federal liability, member bank reserves. Thus consolidation brings clarity to the mysterious printing press process by taking away two cards from the three card monte kind of shuffle involved in fragmented reporting. [1]

Presently, when a Federal Reserve Bank purchases Treasury securities in the open market the entry to FRB accounts is:

Debit – Treasury Securities

Credit – Deposits (Depository Institutions)

The credit to a depository institution's account increases the funds available to that bank (and member bank reserves). The debit to Treasury Securities recognizes the FRB now has an asset. (Note the effect on deposits is generally the same if the purchase is from an individual rather than a bank. Money supply increases in either case.) (See page 13 for an excerpt from the Federal Reserve System's *Purposes and Functions* document.)

[1] For the complete text of Mr. Mosso's remarks see - http://fordhamcorporatecenter.org/files/2012/01/David-Mosso-Conference-Remarks-1.23.122.pdf (last accessed August 15, 2012).

I believe Mr. Mosso's point regarding presentation under consolidation is the US government would no longer report the amount of securities held by the FRBs as Treasury Securities (debt held by the public in the consolidated financial statements of the US Government) and would instead show the full amount of "deposits-depository institutions" and the Federal Reserve Notes outstanding as liabilities. (The total amount of deposits and reserve notes is not necessarily equal to Treasury Securities – so there would be an increase in the total liabilities upon consolidation.)

Mr. Mosso refers to the FRB acquisition of Treasury Securities as the 'printing press.' Others sometimes refer to this as "monetizing the debt." Monetization of government debt generally is the practice of a government issuing debt that is ultimately purchased by the central bank. This may be viewed as the government creating money - through the central bank - to meet its needs.

This concept can be difficult to understand when one removes the central bank role – that is, moves from a two step process to a single step (as consistent with the goal of consolidated financial statements intended to show activity of components as if the actions were those of a single economic entity).[2] I found the following example helpful. If taxpayer refunds were settled by the government simply increasing the taxpayer's bank account balance by the amount of the refund then the entry on the government's books might look like this:

Debit – Liability for tax refunds

Credit – Deposits (Depository Institutions)

I believe the above explains the mechanics of the possible effect on a government's balance sheet if the central bank were consolidated but it does not explain the information's significance to a user. I have not explored deeply the underlying concept of monetization of debt and whether consolidation of central bank activities (especially monetary policy) with general government activities would lead to a more useful and understandable presentation. I gather the presentation of the liability as "deposits-depository institutions" instead of "debt" on a government's balance sheet is intended to provide information useful in forming expectations regarding future inflation. The federal financial reporting objectives do not explicitly address informing users' expectations regarding inflation. A further effect noted in Mr. Mosso's illustration is that the overall liability balance would increase since Federal Reserve Notes Outstanding and Deposits together generally exceed the Federal Reserve Bank holdings of Treasury securities.

If the Board wishes to explore options for improving the balance sheet's usefulness in this regard, I advise that we invite participation of experts in this area. My initial reading suggests, not surprisingly, there are competing views among economists regarding whether meeting a government's cash needs through increases in debt or deposits (increasing the money supply) would lead to different inflation outcomes. Further, considering how the inclusion of Federal Reserve Notes Outstanding and Deposits

[2] Note that the Federal Reserve Act, Section 14, authorizes purchases of Treasury Securities in the open market (rather than directly from the Treasury).

on the consolidated balance sheet of the US government might support meeting the federal financial reporting objectives would be advisable.

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2. In my review of the on-line 2011 FRB (Banks) financial statements, liabilities total $2.865 trillion. Of this amount, $1.562 trillion is shown as a liability for Depository Institution Deposits. This $1.562 trillion liability seems to relate directly to the operation of the Banks. The bulk of the remaining liabilities are for Federal Reserve Notes Outstanding.

   What is the entry and explanation for this amount?

   **Response: "**Federal Reserve Notes Outstanding" (FRNO) represents currency in circulation. The FRNO balance is affected when a member bank requests a shipment of currency. The Deposits - Depository Institution balance decreases (because they use their deposits to "pay" for currency) and the FRNO balance increases. As the economy grows, there is an expectation that the FRNO balance will grow to facilitate the increased cash transactions needed to support more economic activity. The entry is:

   Debit – Deposits (Depository Institutions)

   Credit – Federal Reserve Notes Outstanding

   This shows that the depository institution exchanged its reserve balances (deposits at the FRB) for currency. (See page 12-13 of this memo for an excerpt from the *Federal Reserve System Purposes and Functions* document for further explanation of the entries.[3] Note that the Purposes and Functions document also provides explanations of the actions the Fed may take to adjust the federal funds rate or the money supply. The document is helpful in understanding the changes in the Federal Reserve Banks' combined balance sheet in the context of monetary policy.)

   The Federal Reserve Banks combined financial statements describe the liability for Federal Reserve notes as follows:

> k. Federal Reserve Notes
> Federal Reserve notes are the circulating currency of the United States. These notes, which are identified as issued to a specific Reserve Bank, must be fully collateralized.
> All of the Reserve Banks' assets are eligible to be pledged as collateral. The collateral value is equal to the book value of the collateral tendered with the exception of securities, for which the collateral value is equal to the par value of the securities tendered. The par value of securities sold under agreements to repurchase is deducted from the eligible collateral value.
> The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize outstanding Federal Reserve notes. To satisfy the obligation to provide sufficient collateral for outstanding Federal Reserve notes, the Reserve Banks have entered into an agreement that provides for certain assets of the Reserve Banks to be jointly pledged as collateral for

[3] http://www.federalreserve.gov/pf/pf.htm - last accessed August 7, 2012.

the Federal Reserve notes issued to all Reserve Banks. In the event that this collateral is insufficient, the Federal Reserve Act provides that Federal Reserve notes become a first and paramount lien on all the assets of the Reserve Banks. Finally, Federal Reserve notes are obligations of the United States government.

"Federal Reserve notes outstanding, net" in the Combined Statements of Condition represents the Federal Reserve notes outstanding, reduced by the Reserve Banks' currency holdings of $180 billion and $193 billion at December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, all Federal Reserve notes issued to the Reserve Banks were fully collateralized. At December 31, 2010, all gold certificates, all special drawing right certificates, and $925 billion of domestic securities held in the SOMA were pledged as collateral. At December 31, 2010, no investments denominated in foreign currencies were pledged as collateral.

From where does the amount come?

**Response:** The amount accumulates as currency is distributed to the public through depository institutions and may contract as currency is destroyed (e.g., damaged notes not exchanged for new notes).

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To what entity is the amount owed?

**Response:** The obligation is to the holder of each Federal Reserve note.

Currency is used as legal tender. An individual Federal Reserve note may be exchanged for a new Federal Reserve note(s) of equal amount. The federal accounting concepts define a liability as follows:

> A ***liability*** is a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.

From the federal government's perspective, it is obligated to accept Federal Reserve notes in exchange for assets. An example is that the federal government must accept Federal Reserve notes in settlement of taxes owed (an asset of the government).

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3. In the notes to the financial statements for the Federal Reserve Banks (starting on page 8), the FOMC is identified as the entity "authorizing and directing" the FRBNY and the FRB (Banks) to purchase significant amounts of Treasury securities and GSE debt securities and federal agency and GSE MBS. If the FOMC can direct the Federal Reserve Bank to purchase significant sums of Treasury securities, then how independent are the Federal Reserve Banks from the federal government? If you are not comfortable answering this question, then please provide or obtain comments on thoughts on who might be able to respond to this question as it relates to the control inclusion principle.

**Response:** We have provided principle-based standards for the Board's consideration and have avoided directly naming organizations that meet the inclusion principles. I believe it is consistent with a principle-based approach to allow each member to form a judgment regarding whether the Federal Reserve Banks and/or the Board of Governors (and the Federal Open Market Committee) meet an inclusion principle.

To support your consideration, I have included summary information regarding the Federal Reserve System as attachment 1 to this memo. The attachment provides a chart staff created and is followed by text from the Federal Reserve Bank of Atlanta. Discussion among members may help answer your question. An important consideration is whether you believe the principles are clear enough to be applied by the preparer and auditor to individual entities such as those comprising a central banking system. Attachment 3 also provides a portion of the Federal Reserve Act. You may find this helpful in considering whether the inclusion principles can be applied as written without undue ambiguity.

Note that the process envisioned in the draft standards is to first assess whether the organization meets at least one of the inclusion principles (in the budget, owned, or controlled). If the organization does meet an inclusion principle, then assess whether consolidation (core) or disclosure (non-core) is more appropriate. This assessment includes consideration of the degree of independence – in a relative rather than an absolute sense – of the organization. For example, it is possible to determine that an organization is controlled by elected officials but also permitted relative independence (to insulate it from political influence). Such an entity might then be more appropriate for disclosure rather than consolidation (that is, a non-core entity). Staff has developed the following table and would be interested in whether you believe this would be helpful to readers in understanding the process. It is simpler than the flow chart and may be a useful preamble to the flow chart.

| **Organizations to Include in the General Purpose Federal Financial Reports**<br>- to provide accountability<br>Entities in the budget, owned or controlled | |
|---|---|
| **Entities to be Consolidated** | **Entities to be Disclosed** |
| **Taxpayer supported** | **Not taxpayer supported** |
| **Governed by elected officials** | **Not governed directly by elected officials** |
| **Imposes risks and rewards on taxpayers** | **Limited risks/rewards posed on taxpayers** |
| **Provides goods and services on a non-market basis** | **Provides goods and services on a market basis** |

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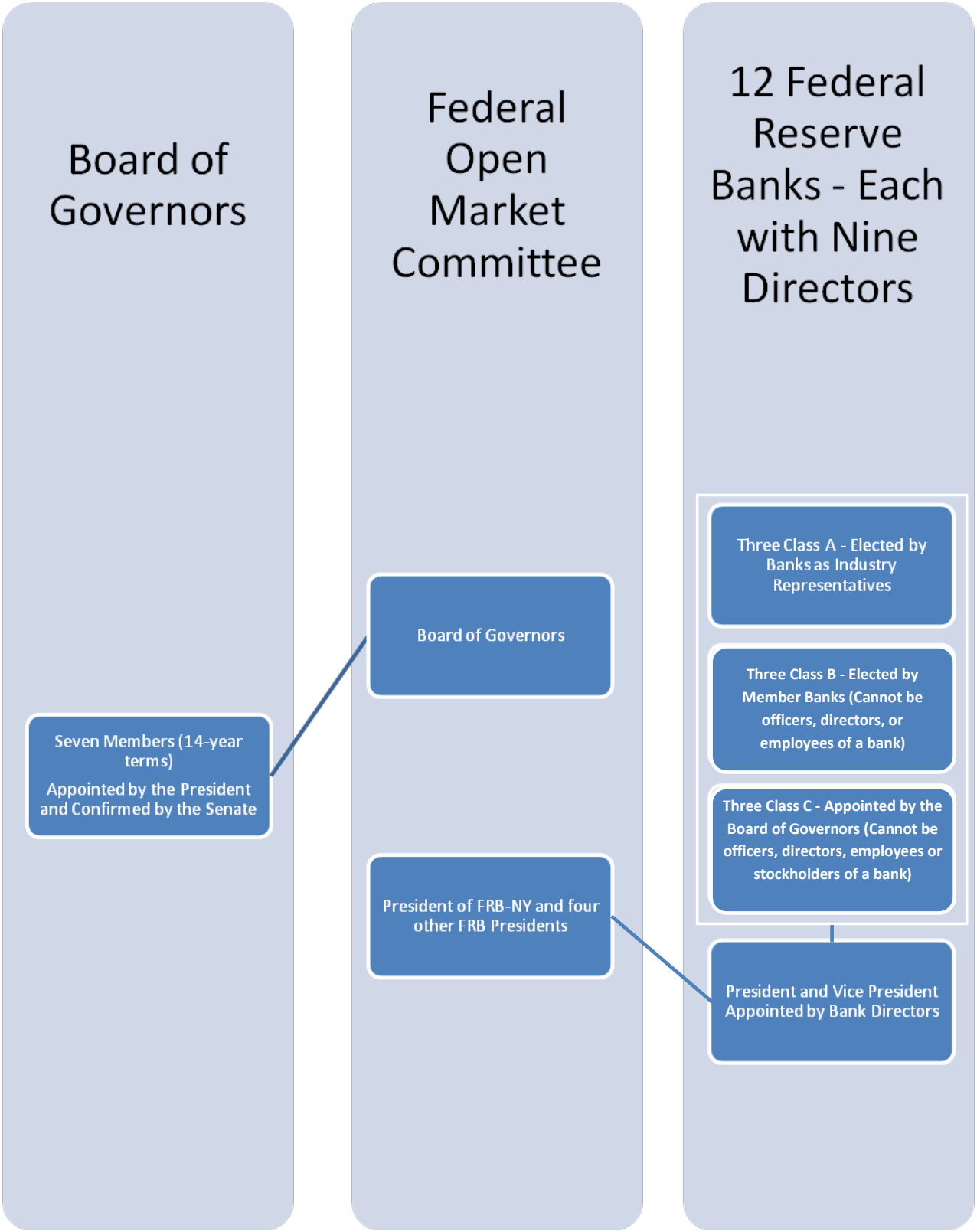
Thank you and please contact me if any of my questions are not clear or require further discussion.

Attachment 1 – Federal Reserve System



**Overview - From the Federal Reserve Bank of Atlanta**

http://www.frbatlanta.org/pubs/frstructurefunctions/structure.cfm#fomc?printable

# The Fed's Structure

To safeguard the Federal Reserve from short-term political pressures, the Fed was set up to be “independent” within the government. The Fed operates on its own earnings rather than on congressional appropriations, and the members of its Board of Governors are appointed for long, staggered terms, limiting the influence of day-to-day political considerations.

But the Federal Reserve works within the government in the sense that it formulates monetary policy to achieve overall goals set by Congress and the president. Although the Federal Reserve's specific decisions do not have to be approved by the president or the executive branch, the Fed must report to Congress, which created it. Congress has the power to alter or even abolish the Federal Reserve at any time.

The Fed's unique structure also provides internal checks and balances, ensuring that its decisions and operations are not dominated by any one part of the system.

**The Board of Governors**

The Board of Governors, located in Washington, D.C., is a federal government agency. It consists of seven members appointed by the president and confirmed by the Senate for staggered 14-year terms. The chairman and vice chairman are designated by the president, with Senate approval, for four-year terms (renewable during their board-member terms).

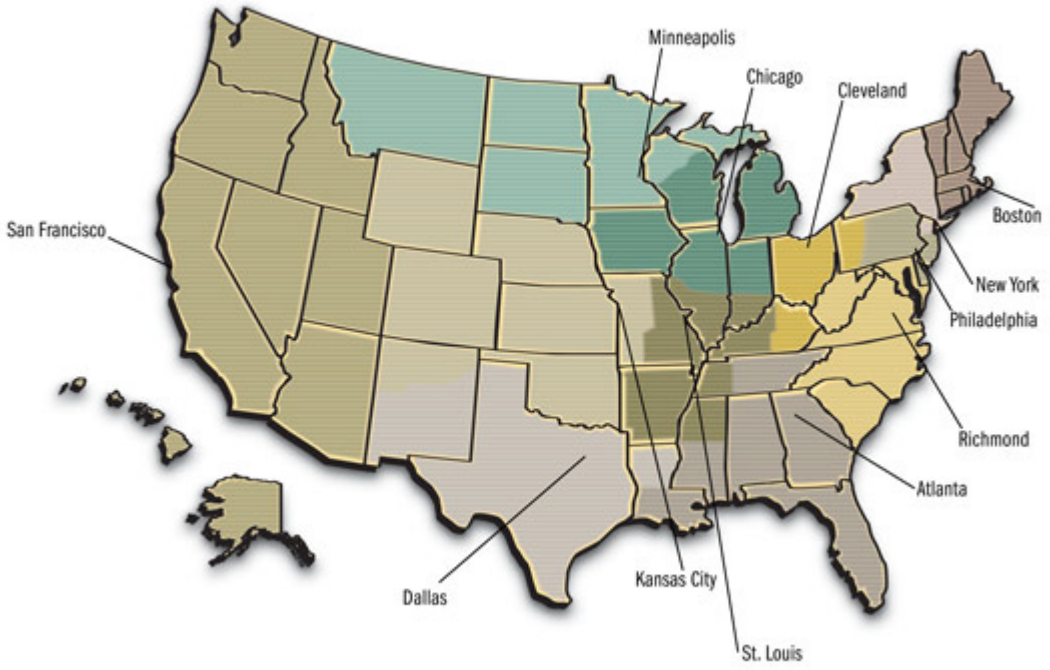
The Board of Governors regularly reports to Congress, giving an annual report on operations and semiannual reports on the state of the economy and the Fed's objectives for the growth of money and credit. The chairman meets regularly with the president and the secretary of the Treasury. Board members testify
frequently before congressional committees and meet frequently with the president's Council of Economic Advisers and other key economic officials.

Board members participate in formulating monetary policy, along with Reserve Bank presidents, through the Federal Open Market Committee (see below). The Board has sole responsibility for setting reserve requirements for depository institutions and approves discount rate changes proposed by Reserve Bank directors.

The Board establishes and administers financial safety and soundness and consumer protection regulations and administers regulations regarding bank consolidation. The Board also oversees Reserve Banks' services to depository institutions, bank supervision functions, and accounting procedures and approves Reserve Banks' budgets.

**Federal Reserve Banks**

Federal Reserve Banks are the decentralized element of the U.S. central bank. The 12 Reserve Banks are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Branches are located in 25 other cities, and all but two Reserve Banks have at least one branch.




Each Federal Reserve Bank is separately incorporated, with a board of nine directors. Reserve Banks generate their own income, which comes mainly from interest on government securities acquired through open market operations. Each year, Reserve Banks turn over to the U.S. Treasury earnings in excess of the amount they need to pay expenses and dividends to member banks, to maintain a surplus equal to paid-in capital, and to pay operating expenses.

Reserve Bank directors, under the Board of Governors' supervision, oversee their bank's operations and appoint and recommend salaries of the bank's president and first vice president. Of the nine directors, six—three class A, representing the banking industry, and three class B—are elected by member banks, including all nationally chartered banks and state-chartered banks that meet certain requirements. Three class C directors, including the chairman and deputy chairman, are appointed by the Board of Governors. Class B and C directors represent agriculture, commerce, industry, labor, and services in the Federal Reserve District; they cannot be officers, directors, or employees of a bank, and class C directors cannot be bank stockholders.

**Advisory Committees**
Three committees advise the Board of Governors, providing information on various groups affected by Fed policies.

- *The Federal Advisory Council* confers with the Board of Governors at least four times a year on economic and banking issues.
- *The Consumer Advisory Council*, representing consumers and institutions that finance them, meets with the Board three times a year.
- *The Thrift Institutions Advisory Council* meets with the Board three times a year to share information and views on the special needs and problems of thrift institutions.

Advisory committees at the individual Reserve Banks advise the banks on these and other interests at the regional level.

Branch banks' boards have five or seven directors; the majority are appointed by head-office directors and the rest by the Board of Governors.

Reserve Banks monitor national and international economic conditions and provide information on their districts that is used in formulating monetary policy. Reserve Banks hold reserve balances for and serve as “lender of last resort” to depository institutions. Directors establish the discount rate charged on such loans, subject to approval by the Board of Governors.

Reserve Banks also examine and supervise certain types of depository institutions and provide payment services to depository institutions and the U.S. Treasury.

**Federal Open Market Committee**

The Federal Open Market Committee (FOMC) directs open market operations, the most important tool of monetary policy. The committee meets in Washington, D.C., eight times a year and holds additional meetings or telephone consultations as needed.

The FOMC comprises 12 members—the seven members of the Board of Governors and five Reserve Bank presidents, one of whom is the president of the Federal Reserve Bank of New York. Other presidents serve one-year terms on a rotating basis, and all presidents participate in each meeting.

**Issuing Federal Reserve Notes:**
**Debit - Deposits (Dep. Inst.)**
**Credit - Federal Reserve notes**

3.2). Th
Reserve's
are Federal Reserve notes, the Treasury's balance at the Federal Reserve, and Federal Reserve float.

The largest autonomous factor is Federal Reserve notes. When a depository institution needs currency, it places an order with a Federal Reserve Bank. When the Federal Reserve fills the order, it debits the account of the depository institution at the Federal Reserve, and total Federal Reserve balances decline. The amount of currency demanded tends to grow over time, in part reflecting increases in nominal spending as the economy grows. Consequently, an increasing volume of balances would be extinguished, and the federal funds rate would rise, if the Federal Reserve did not offset the contraction in balances by purchasing securities. Indeed, the expansion of Federal Reserve notes is the primary reason that the Federal Reserve's holdings of securities grow over time.

Table 3.2

**Consolidated balance sheet of the Federal Reserve Banks, December 31, 2004**

Millions of dollars

| Assets | | Liabilities | |
|---|---|---|---|
| Securities | 717,819 | Federal Reserve notes | 719,436 |
| Repurchase agreements | 33,000 | Reverse repurchase agreements | 30,783 |
| Loans | 43 | Balance, U.S. Treasury account | 5,912 |
| Float | 927 | Other liabilities and capital | 27,745 |
| All other assets | 56,130 | Balances, all depository institutions | 24,043 |

Another important factor is the balance in the U.S. Treasury's account at the Federal Reserve. The Treasury draws on this account to make payments by check or direct deposit for all types of federal spending. When these payments clear, the Treasury's account is reduced and the account of the depository institution for the person or entity that receives the funds is increased. The Treasury is not a depository institution, so a payment by the Treasury to the public (for example, a Social Security payment) raises the volume of Federal Reserve balances available to depository institutions. Movements in the Treasury's balance at the Federal Reserve tend to be less predictable following corporate and individual tax dates, especially in the weeks following the April 15 deadline for federal income tax payments.

Attachment 2: Excerpt from the *Federal Reserve System Purposes and Functions*



**Purchase of securities:**
Debit - Treasury Securities
Credit - Deposits (Depository Institutions)

**Sale of Securities:**
Debit - Deposits (Dep. Inst.)
Credit - Treasury Securities

agreements. Purchases or sales of securities by the Federal Reserve, whether outright or temporary, are called open market operations, and they are the Federal Reserve's principal tool for influencing the supply of balances at the Federal Reserve Banks. Open market operations are conducted to align the supply of balances at the Federal Reserve with demand for those balances at the target rate set by the FOMC.

Purchasing securities or arranging a repurchase agreement increases the quantity of balances because the Federal Reserve creates balances when it credits the account of the seller's depository institution at the Federal Reserve for the amount of the transaction; there is no corresponding offset in another institution's account. Conversely, selling securities or conducting a reverse repurchase agreement decreases the quantity of Federal Reserve balances because the Federal Reserve extinguishes balances when it debits the account of the purchaser's depository institution at the Federal Reserve; there is no corresponding increase in another institution's account. In contrast, when financial institutions, business firms, or individuals buy or sell securities among themselves, the credit to the account of the seller's depository institution is offset by the debit to the account of the purchaser's depository institution; so existing balances held at the Federal Reserve are redistributed from one depository institution to another without changing the total available.

*The supply of Federal Reserve balances increases when depository institutions borrow from the Federal Reserve's discount window.*

***Discount Window Lending***

The supply of Federal Reserve balances increases when depository institu-

# Federal Reserve Act (Sections 1 through 19)

As accessed at http://www.federalreserve.gov/aboutthefed/fract.htm on August 15, 2012

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# Section 1. Short Title and Definitions

**1. Short Title** *

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That the short title of this Act shall be the "Federal Reserve Act."

[12 USC 226. Part of original Federal Reserve Act; not amended.] *

**2. Definition of "Bank"**

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to. For purposes of this Act, a State bank includes any bank which is operating under the Code of Law for the District of Columbia.

[12 USC 221. Part of original Federal Reserve Act. As amended by act of Oct. 13, 2006 (120 Stat. 2001). † ]

**3. Definitions of Other Terms**

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Board of Governors of the Federal Reserve System; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank; the term "the continental United States" means the States of the United States and the District of Columbia.

**4. Definition of "Bonds and Notes of the United States"**

The terms "bonds and notes of the United States," "bonds and notes of the Government of the United States," and "bonds or notes of the United States" used in this Act shall be held to include certificates of indebtedness and Treasury bills issued under section 3104 of title 31.

[12 USC 221. As amended by acts of June 25, 1959 (73 Stat. 142) and Sept. 13, 1982 (96 Stat. 1058). For further definitions, see section 2 of Banking Act of 1933, approved June 16, 1933. Section 203(a) of the Banking Act of 1935, approved Aug. 23, 1935 (49 Stat. 704), provided: "Hereafter the Federal Reserve Board shall be known as the 'Board of Governors of the Federal Reserve System', and the governor and vice governor of the Federal Reserve Board shall be known as the 'chairman' and the 'vice chairman', respectively, of the Board of Governors of the Federal Reserve System." Accordingly, the words "Federal Reserve Board", "governor", and "vice governor", wherever they formerly appeared in the Federal Reserve Act (or in other acts of Congress), have been changed here to read "Board of Governors of the Federal Reserve System", "chairman" and "vice chairman", respectively, notwithstanding the fact that such change has not been made by specific amendment of the law.

# Section 2. Federal Reserve Districts

**1. Establishment of Reserve Cities and Districts**
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. The determination of said organization committee shall not be subject to review except by the Board of Governors of the Federal Reserve System when organized: *Provided,* That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Board of Governors of the Federal Reserve System, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. When the State of Alaska or

Hawaii is hereafter admitted to the Union the Federal Reserve districts shall be readjusted by the Board of Governors of the Federal Reserve System in such manner as to include such State. Every national bank in any State shall, upon commencing business or within ninety days after admission into the Union of the State in which it is located, become a member bank of the Federal Reserve System by subscribing and paying for stock in the Federal Reserve bank of its district in accordance with the provisions of this Act and shall thereupon be an insured bank under the Federal Deposit Insurance Act, and failure to do so shall subject such bank to the penalty provided by the sixth paragraph of this section.

[Partly incorporated in 12 USC 222 and 223. As amended by acts of July 7, 1958 (72 Stat. 350); March 18, 1959 (73 Stat. 12).]

**2. Powers of Organization Committee**

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. 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."

[Omitted from U.S. Code except part of last sentence, which is incorporated in 12 USC 225. Part of original Federal Reserve Act; not amended.]

**3. Subscription to Stock by National Banks**

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 six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Board of Governors of the Federal Reserve System, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System, said payments to be in gold or gold certificates.

[Partly incorporated in 12 USC 282. Part of original Federal Reserve Act; not amended. For provisions concerning stock subscriptions by state banks and trust companies, see section 9.]

**4. Liability of Shareholders of Reserve Banks**

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

[12 USC 502. Part of original Federal Reserve Act; not amended.]

**5. Failure of National Bank to Accept Terms of Act**

Any national bank failing to signify its acceptance of the terms of this Act within 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 Board of Governors of the Federal Reserve System.

[Omitted from U.S. Code. Part of original Federal Reserve Act; not amended.]

**6. Penalty for Violation of Act by National Banks**

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank 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. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Board of Governors of the Federal Reserve System, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

[12 USC 501a. Part of original Federal Reserve Act; not amended.]

**7. Effect of Dissolution**
Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

[12 USC 501a. Part of original Federal Reserve Act; not amended.]

**8. Stock Offered to Public**
Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

[Omitted from U.S. Code. Part of original Federal Reserve Act; not amended.]

**9. Limitation on Amount to One Subscriber**
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 $25,000 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.

[12 USC 283. Part of original Federal Reserve Act; not amended.]

**10. Stock Allotted to United States**
Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

[Omitted from U.S. Code. Part of original Federal Reserve Act; not amended. In a communication from the Board of Governors of the Federal Reserve System dated March 7, 1941, it was stated, "As originally enacted the Federal Reserve Act provided for a Reserve Bank Organization Committee to have charge of the initial steps in organizing the Federal Reserve System and this Committee was authorized to allot Federal Reserve Bank stock to the United States in the event that subscriptions to such stock by banks and by the public were inadequate. However, subscriptions by member banks were adequate and there was no necessity or authority for the allocation of any stock to the United States. Accordingly, [this paragraph] is now of no practical effect and may be regarded as obsolete."]

**11. Voting Rights**
Stock not held by member banks shall not be entitled to voting power.

[12 USC 285. Part of original Federal Reserve Act; not amended.]

**12. Transfer of Stock**
The Board of Governors of the Federal Reserve System is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

[12 USC 286. Part of original Federal Reserve Act; not amended.]

**13. Minimum Capital; Status of Reserve Cities**
No Federal reserve bank shall commence business with a subscribed capital less than $4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of $100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

[Last sentence of this paragraph is omitted from U.S. Code; rest of paragraph is incorporated in 12 USC 224 and 281. Amended by act of July 28, 1959 (73 Stat. 264).]

# Section 2A. Monetary Policy Objectives

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.

[12 USC 225a. As added by act of November 16, 1977 (91 Stat. 1387) and amended by acts of October 27, 1978 (92 Stat. 1897); Aug. 23, 1988 (102 Stat. 1375); and Dec. 27, 2000 (114 Stat. 3028).]

# Section 2B. Appearances Before and Reports to the Congress

**(a) Appearances before the Congress**

1. The Chairman of the Board shall appear before the Congress at semi-annual hearings, as specified in paragraph (2), regarding
   A. the efforts, activities, objectives and plans of the Board and the Federal Open Market Committee with respect to the conduct of monetary policy; and
   B. economic developments and prospects for the future described in the report required in subsection (b).
2. The Chairman of the Board shall appear
   A. before the Committee on Banking and Financial Services of the House of Representatives on or about February 20 of even numbered calendar years and on or about July 20 of odd numbered calendar years;
   B. before the Committee on Banking, Housing, and Urban Affairs of the Senate on or about July 20 of even numbered calendar years and on or about February 20 of odd numbered calendar years; and
   C. before either Committee referred to in subparagraph (A) or (B), upon request, following the scheduled appearance of the Chairman before the other Committee under subparagraph (A) or (B).

[12 USC 225b. As added by act of Dec. 27, 2000 (114 Stat. 3028).]

**(b) Congressional report.** The Board shall, concurrent with each semi-annual hearing required by this section, submit a written report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking and Financial Services of the House of Representatives, containing a discussion of the conduct of monetary policy and economic developments and prospects for the future, taking into account past and prospective developments in employment, unemployment, production,investment, real income, productivity, exchange rates, international trade and payments, and prices.

[12 USC 225b. As added by act of Dec. 27, 2000 (114 Stat. 3028).]

**(c) Public access to information**. The Board shall place on its home Internet website, a link entitled `Audit', which shall link to a webpage that shall serve as a repository of information made available to the public for a reasonable period of time, not less than 6 months following the date of release of the relevant information, including--

1. the reports prepared by the Comptroller General under section 714 of title 31, United States Code;
2. the annual financial statements prepared by an independent auditor for the Board in accordance with section 11B;
3. the reports to the Committee on Banking, Housing, and Urban Affairs of the Senate required under section 13(3) (relating to emergency lending authority); and
4. such other information as the Board reasonably believes is necessary or helpful to the public in understanding the accounting, financial reporting, and internal controls of the Board and the Federal reserve banks.

[12 USC 225b. As added by act of July 21, 2010 (124 Stat. 2118).]

# Section 3. Branch Offices

**1. Establishment of Branches of Reserve Banks**
The Board of Governors of the Federal Reserve System may permit or require any Federal reserve bank to establish branch banks within the Federal reserve district in which it is located or within the district of any Federal reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal reserve bank of the district, and the remaining directors by the Board of Governors of the Federal Reserve System. Directors of branch banks shall hold office during the pleasure of the Board of Governors of the Federal Reserve System.

[12 USC 521. As amended by act of June 21, 1917 (40 Stat. 232).]

**2. Discontinuance of Branches**
The Board of Governors of the Federal Reserve System may at any time require any Federal Reserve Bank to discontinue any branch of such Federal Reserve Bank established under this section. The Federal Reserve Bank shall thereupon proceed to wind up the business of such branch bank, subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe.

[12 USC 521. As added by act of Feb. 25, 1927 (44 Stat. 1234).]

**3. Erection of Branch Buildings**
No Federal Reserve Bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character or to authorize the erection of any such building, except with the approval of the Board of Governors of the Federal Reserve System.

[12 USC 521. As added by act of Aug. 31, 1962 (76 Stat. 418).]

# Section 4. Federal Reserve Banks

### 1. Organization of Reserve Banks

When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

[Omitted from U.S. Code. Part of original Federal Reserve Act; not amended.]

### 2. Organization Certificate

When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares, subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

[Omitted from U.S. Code. Part of original Federal Reserve Act; not amended.]

### 3. Acknowledgment and Filing

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

[Omitted from U.S. Code. Part of original Federal Reserve Act; not amended.]

### 4. General Corporate Powers

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, 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 after the approval of this Act until dissolved by Act of Congress or until forfeiture of franchise for 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 a president, vice presidents, and such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds for them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. The president shall be the chief executive officer of the bank and shall be appointed by the Class B and Class C directors of the bank, with the approval of the Board of Governors of the Federal Reserve System, for a term of 5 years; and all other executive officers and all employees of the bank shall be directly responsible to the president. The first vice president of the bank shall be appointed in the same manner and for the same term as the president, and shall, in the absence or disability of the president or during a vacancy in the office of the president, serve as chief executive officer of the bank. Whenever a vacancy shall occur in the office of the president or the first vice president, it shall be filled in the manner provided for original appointments; and the person so appointed shall hold office until the expiration of the term of his predecessor.

Sixth. To prescribe by its board of directors, by-laws 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 Secretary of the Treasury circulating notes in blank, registered and countersigned 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 as 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 capital stock of such Federal reserve bank.

[12 USC 341. As amended by act of Feb. 25, 1927 (44 Stat. 1234), which amended subparagraph "Second;" by act of Aug. 23, 1935 (49 Stat. 703), which amended subparagraph "Fifth" effective March 1, 1936; by act of Sept. 23, 1994 (108 Stat. 2293), which amended subparagraph "Eighth"; and by act of July 21, 2010 (124 Stat. 2126), which amended subparagraph "Fifth." As to issuance of Federal Reserve bank notes and redemption of bonds securing such notes, see section 18, and note to the first paragraph of that section.]

### 5. Authority to Commence Business

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.

[12 USC 341. Part of original Federal Reserve Act; not amended.]

### 6. Board of Directors

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

[12 USC 301. Part of original Federal Reserve Act; not amended.]

### 7. Duties of Directors Generally

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

[12 USC 301. Part of original Federal Reserve Act; not amended.]

### 8. Administration of Affairs; Extension of Credit

Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and may, subject to the provisions of law and the orders of the Board of Governors of the Federal Reserve System, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. The Board of Governors of the Federal Reserve System may prescribe regulations further defining within the limitations of this Act the conditions under which discounts, advancements, and the accommodations may be extended to member banks. Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The chairman of the Federal reserve bank shall report to the Board of Governors of the Federal Reserve System any such undue use of bank credit by any member bank, together with his recommendation. Whenever, in the judgment of the Board of Governors of the Federal Reserve System, any member bank is making such undue use of bank credit, the Board may, in its discretion, after reasonable notice and an opportunity for a hearing, suspend such bank from the use of the credit facilities of the Federal Reserve System and may terminate such suspension or may renew it from time to time.

[12 USC 301. As amended by act of June 16, 1933 (48 Stat. 163).]

### 9. Number and Classes 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.

[12 USC 302. Part of original Federal Reserve Act; not amended.]

### 10. Class A Directors

Class A shall consist of three members, without discrimination on the basis of race, creed, color, sex, or national origin, who shall be chosen by and be representative of the stockholding banks.

[12 USC 302. As amended by act of Nov. 16, 1977 (91 Stat. 1387).]

### 11. Class B Directors

Class B shall consist of three members, who shall represent the public and shall be elected without discrimination on the basis of race, creed, color, sex, or national origin, and with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers.

[12 USC 302. As amended by act of Nov. 16, 1977 (91 Stat. 1388).]

### 12. Class C Directors

Class C shall consist of three members who shall be designated by the Board of Governors of the Federal Reserve System. They shall be elected to represent the public, without discrimination on the basis of race, creed, color, sex, or national origin, and with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor and consumers. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Board of Governors of the Federal Reserve System 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.

[12 USC 302. As amended by act of Nov. 16, 1977 (91 Stat. 1388).]

### 13. Senator or Representative Ineligible

No Senator or Representative in Congress shall be a member of the Board of Governors of the Federal Reserve System or an officer or a director of a Federal reserve bank.

[12 USC 303. Part of original Federal Reserve Act; not amended.]

### 14. Class B Directors as Employees of Banks

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

[12 USC 303. Part of original Federal Reserve Act; not amended.]

### 15. Class C Directors as Employees or Stockholders of Banks

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

[12 USC 303. Part of original Federal Reserve Act; not amended.]

### 16. Nomination and Election of Class A and B Directors

Directors of class A and class B shall be chosen in the following manner:

The Board of Governors of the Federal Reserve System shall classify the member banks of the district into three general groups or divisions, designating each group by number. Each group shall consist as nearly as may be of banks of similar capitalization. Each member bank shall be permitted to nominate to the chairman of the board of directors of the Federal reserve bank of the district one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each member bank. Each member bank by a resolution of the board or by an amendment to its by-laws shall authorize its president, cashier, or some other officer to cast the vote of the member bank in the elections of class A and class B directors: *Provided,* That whenever any member banks within the same Federal Reserve district are subsidiaries of the same bank holding company within the meaning of the Bank Holding Company Act of 1956, participation in any such nomination or election by such member banks, including such bank holding company if it is also a member bank, shall be confined to one of such banks, which may be designated for the purpose by such holding company.

[12 USC 304. As amended by acts of Sept. 26, 1918 (40 Stat. 968); June 16, 1933 (48 Stat. 163); July 1, 1966 (80 Stat. 243).]

### 17. Preferential Ballot

Within fifteen days after receipt of the list of candidates the duly authorized officer of a member bank shall certify to the chairman his first, second, and other choices for director of class A and class B, respectively, upon a preferential ballot upon a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each such officer shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate. No officer or director of a member bank shall be eligible to serve as a class A director unless nominated and elected by banks which are members of the same group as the member bank of which he is an officer or director.

[12 USC 304. As amended by act of Sept. 26, 1918 (40 Stat. 968).]

### 18. Candidates Serving More Than One Member Bank

Any person who is an officer or director of more than one member bank shall not be eligible for nomination as a class A director except by banks in the same group as the bank having the largest aggregate resources of any of those of which such person is an officer or director.

[12 USC 304. As added by act of Sept. 26, 1918 (40 Stat. 968).]

### 19. Counting the Ballots

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. The candidate then having a majority of the electors voting and the highest number of combined votes shall be declared elected. If no candidate have a majority of electors voting and the highest number of votes when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

[12 USC 304. As amended by act of June 26, 1930 (46 Stat. 815).]

### 20. Class C Directors; Chairman and Federal Reserve Agent; Deputy Chairman

Class C directors shall be appointed by the Board of Governors of the Federal Reserve System. 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 Board of Governors of the Federal Reserve System, a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Board of Governors of the Federal Reserve System and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Board of Governors of the Federal Reserve System and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C shall be appointed by the Board of Governors of the Federal Reserve System as deputy chairman to exercise the powers of the chairman of the board when necessary. In case of the absence of the chairman and deputy chairman, the third class C director shall preside at meetings of the board.

[12 USC 305. As amended by act of June 21, 1917 (40 Stat. 232).]

### 21. Assistant Federal Reserve Agents

Subject to the approval of the Board of Governors of the Federal Reserve System, the Federal reserve agent shall appoint one or more assistants. Such assistants, who shall be persons of tested banking experience, shall assist the Federal reserve agent in the performance of his duties and shall also have power to act in his name and stead during his absence or disability. The Board of Governors of the Federal Reserve System shall require such bonds of the assistant Federal reserve agents as it may deem necessary for the protection of the United States. Assistants to the Federal reserve agent shall receive an annual compensation, to be fixed and paid in the same manner as that of the Federal reserve agent.

[12 USC 306. As added by act of June 21, 1917 (40 Stat. 232).]

### 22. Compensation and Expenses of Directors, Officers, and Employees

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amounts shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Board of Governors of the Federal Reserve System.

[12 USC 307. Part of original Federal Reserve Act; not amended.]

### 23. Meetings of Directors Pending Organization

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

[Omitted from U.S. Code. Part of original Federal Reserve Act; not amended.]

### 24. Terms of Directors; Vacancies

At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

[12 USC 308. Part of original Federal Reserve Act; not amended.]

# Section 5. Stock Issues; Increase and Decrease of Capital

### 1. Amount of Shares; Increase and Decrease of Capital; Surrender and Cancellation of Stock

The capital stock of each Federal reserve bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to 6 per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Board of Governors of the Federal Reserve System. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to 6 per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of 1 per centum a month from the period of the last dividend. When a member bank reduces its capital stock or surplus it shall surrender a proportionate amount of its holdings in the capital stock of said Federal Reserve bank. Any member bank which holds capital stock of a Federal Reserve bank in excess of the amount required on the basis of 6 per centum of its paid-up capital stock and surplus shall surrender such excess stock. When a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal Reserve bank and be released from its stock subscription not previously called. In any such case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of 1 per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal Reserve bank.

[12 USC 287. As amended by act of Aug. 23, 1935 (49 Stat. 713).]

# Section 6. Insolvency of Member Banks

**1. Insolvency of Member Banks**
If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank.

[12 USC 288. As amended by act of April 23, 1930 (46 Stat. 250).]

**2. National Bank Discontinuing Banking Operations**
If any national bank which has not gone into liquidation as provided in section 5220 of the Revised Statutes (United States Code, title 12, section 181) and for which a receiver has not already been appointed for other lawful cause, shall discontinue its banking operations for a period of sixty days the Comptroller of the Currency may, if he deems it advisable, appoint a receiver for such bank. The stock held by the said national bank in the Federal reserve bank of its district shall thereupon be canceled and said national bank shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares canceled and one-half of 1 per centum a month from the period of the last dividend, if earned, not to exceed the book value thereof, less any liability of such national bank to the Federal reserve bank.

[12 USC 288. As added by act of April 23, 1930 (46 Stat. 250). As amended by act of Aug. 23, 1935 (49 Stat. 713).]

# Section 7. Division of Earnings

**Dividends and Surplus Fund of Reserve Banks**

**(a)**

1.
A. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders of the bank shall be entitled to receive an annual dividend of 6 percent on paid-in capital stock.
B. The entitlement to dividends under subparagraph (A) shall be cumulative.
2. That portion of net earnings of each Federal reserve bank which remains after dividend claims under subparagraph (1)(A) have been fully met shall be deposited in the surplus fund of the bank.

**(b) Transfer for fiscal year 2000.**

1. The Federal reserve banks shall transfer from the surplus funds of such banks to the Board of Governors of the Federal Reserve System for transfer to the Secretary of the Treasury for deposit in the general fund of the Treasury, a total amount of $3,752,000,000 in fiscal year 2000.
2. Of the total amount required to be paid by the Federal reserve banks under paragraph (1) for fiscal year 2000, the Board shall determine the amount each such bank shall pay in such fiscal year.
3. During fiscal year 2000, no Federal reserve bank may replenish such bank's surplus fund by the amount of any transfer by such bank under paragraph (1).

[12 USC 289. As amended by acts of March 3, 1919 (40 Stat. 1314); June 16, 1933 (48 Stat. 163); Aug. 10, 1993 (107 Stat. 337); Sept. 23, 1994 (108 Stat. 2291); and Nov. 29, 1999 (113 Stat. 1501A-304), which added this subsection (b) but failed to redesignate existing subsection (b) (12 USC 290).]

**Use of Earnings Transferred to the Treasury**

**(b)** 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 under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

[12 USC 290. Part of original Federal Reserve Act; not amended. Designated subsection (b) by act of Aug. 10, 1993 (107 Stat. 337).]

**Exemption from Taxation**

**(c)** Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

[12 USC 531. Part of original Federal Reserve Act; but see 31 USC 3124(a), which reads as follows:

"(a) Stocks and obligations of the United States Government are exempt from taxation by a State or political subdivision of a State. The exemption applies to each form of taxation that would require the obligation, the interest on the obligation, or both, to be considered in computing a tax, except--

(1) a nondiscriminatory franchise tax or another nonproperty tax instead of a franchise tax, imposed on a corporation; and

(2) an estate or inheritance tax."

[Designated subsection (c) by act of Aug. 10, 1993 (107 Stat. 338).]

# Section 8. Conversion of State Banks into National Banks

**1. Conversion of State Banks into National Banks**
Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency.

[12 USC 35. Part of original Federal Reserve Act; not amended.]

**2. Organization of New Bank; Amount of Shares; Powers and Duties**
*Provided, however*, That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders,

officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the National Banking Act for associations originally organized as national banking associations.

[12 USC 35. Part of original Federal Reserve Act; not amended.]

**3. Retention of Assets by Converting Bank**
The Comptroller of the Currency may, in his discretion and subject to such conditions as he may prescribe, permit such converting bank to retain and carry at a value determined by the Comptroller such of the assets of such converting bank as do not conform to the legal requirements relative to assets acquired and held by national banking associations.

[12 USC 35. As added by act of Aug. 23, 1935 (49 Stat. 711).]

# Section 9. State Banks as Members

**1. Applications for Membership by State Banks**

Any bank incorporated by special law of any State, operating under the Code of Law for the District of Columbia, or organized under the general laws of any State or of the United States, including Morris Plan banks and other incorporated banking institutions engaged in similar business, desiring to become a member of the Federal Reserve System, may make application to the Board of Governors of the Federal Reserve System, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. For the purposes of membership of any such bank the terms "capital" and "capital stock" shall include the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation. The Board of Governors of the Federal Reserve System, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto, may permit the applying bank to become a stockholder of such Federal reserve bank.

[12 USC 321. As amended by act of June 21, 1917 (40 Stat. 232), which completely revised this section; and by acts of Feb. 25, 1927 (44 Stat. 1229); June 16, 1933 (48 Stat. 164); June 16, 1934 (48 Stat. 971); and Oct 13, 2006 (120 Stat. 2001). * For admission to membership of mutual savings banks, see paragraph 16.]

**2. Continued Membership in Federal Reserve System**

Upon the conversion of a national bank into a State bank, or the merger or consolidation of a national bank with a State bank which is not a member of the Federal Reserve System, the resulting or continuing State bank may be admitted to membership in the Federal Reserve System by the Board of Governors of the Federal Reserve System in accordance with the provisions of this section, but, otherwise, the Federal Reserve bank stock owned by the national bank shall be canceled and paid for as provided in section 5 of this Act. Upon the merger or consolidation of a national bank with a State member bank under a State charter, the membership of the State bank in the Federal Reserve System shall continue.

[12 USC 321. As added by act of Aug. 17, 1950 (64 Stat. 458).]

**3. Branches of State Member Banks**

Any such State bank which, at the date of the approval of this Act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this Act beyond the limits of the city, town, or village in which the parent bank is situated. *Provided, however,* That nothing herein contained shall prevent any State member bank from establishing and operating branches

in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks except that the approval of the Board of Governors of the Federal Reserve System, instead of the Comptroller of the Currency, shall be obtained before any State member bank may hereafter establish any branch and before any State bank hereafter admitted to membership may retain any branch established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank is situated. The approval of the Board shall likewise be obtained before any State member bank may establish any new branch within the limits of any such city, town, or village.

[12 USC 321. As added by act of Feb. 25, 1927 (44 Stat. 1229); and amended by acts of June 16, 1933 (48 Stat. 164); Aug. 23, 1935 (49 Stat. 721); July 15, 1952 (66 Stat. 633); and Oct. 30, 2004 (118 Stat. 2232). The act referred to in this paragraph was approved Feb. 25, 1927. For provisions governing domestic branches of national banks, see section 5155, Revised Statutes; for provisions governing foreign branches, see section 25, this act.]

### 4. Financial Condition, Management, and Powers

In acting upon such applications the Board of Governors of the Federal Reserve System shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this Act.

[12 USC 322. As added by act of June 21, 1917 (40 Stat. 233), which completely revised this section.]

### 5. Payment of Subscription

Whenever the Board of Governors of the Federal Reserve System shall permit the applying bank to become a stockholder in the Federal reserve bank of the district its stock subscription shall be payable on call of the Board of Governors of the Federal Reserve System, and stock issued to it shall be subject to the provisions of this Act.

[12 USC 323. As amended by act of June 21, 1917 (40 Stat. 233), which completely revised this section.]

### 6. Provision of Law to Be Complied with; Reports of Condition

All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this Act, to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock and which relate to the withdrawal or impairment of their capital stock, and to conform to the provisions of sections 5199(b) and 5204 of the Revised Statutes with respect to the payment of dividends; except that any reference in any such provision to the Comptroller of the Currency shall be deemed for the purposes of this sentence to be a reference to the Board of Governors of the Federal Reserve System. Such banks and the officers, agents, and employees thereof shall also be subject to the provisions of and to the penalties prescribed by sections 334, 656, and 1005 of Title 18, United States Code, and shall be required to make reports of condition and of the payment of dividends to the Federal Reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal Reserve bank on dates to be fixed by the Board of Governors of the Federal Reserve System. Any bank which (A) maintains procedures reasonably adapted to avoid any inadvertent error and, unintentionally and as a result of such an error, fails to make or publish any report required under this paragraph, within the period of time specified by the Board, or submits or publishes any false or misleading report or information, or (B) inadvertently transmits or publishes any report which is minimally late, shall be subject to a penalty of not more than $2,000 for each day during which such failure continues or such false or misleading information is not corrected. The bank shall have the burden of proving that an error was inadvertent and that a report was inadvertently transmitted or published late. Any bank which fails to make or publish such reports within the period of time specified by the Board, or submits or publishes any false or misleading report or information, in a manner not described in the 2nd preceding sentence shall be subject to a penalty of not more than $20,000 for each day during which such failure continues or such false or misleading information is not corrected. Notwithstanding the preceding sentence, if any bank knowingly or with reckless disregard for the accuracy of any information or report described in such sentence submits or publishes any false or misleading report or information, the Board may assess a penalty of not more than $1,000,000 or 1

percent of total assets of such bank, whichever is less, per day for each day during which such failure continues or such false or misleading information is not corrected. Any penalty imposed under any of the 4 preceding sentences shall be assessed and collected by the Board in the manner provided in subparagraphs (E), (F), (G), and (I) of section 8(i)(2) of the Federal Deposit Insurance Act (for penalties imposed under such section) and any such assessment (including the determination of the amount of the penalty) shall be subject to the provisions of such section. Any bank against which any penalty is assessed under this subsection shall be afforded an agency hearing if such bank submits a request for such hearing within 20 days after the issuance of the notice of assessment. Section 8(h) of the Federal Deposit Insurance Act shall apply to any proceeding under this paragraph. Such reports of condition shall be in such form and shall contain such information as the Board of Governors of the Federal Reserve System may require and shall be published.

[12 USC 324. As amended by act of June 21, 1917 (40 Stat. 233), which completely revised this section; and by acts of Aug. 23, 1935 (49 Stat. 713); Sept. 3, 1954 (68 Stat. 1236); Sept. 8, 1959 (73 Stat. 466); Aug. 9, 1989 (103 Stat. 480); and Sept. 23, 1994 (108 Stat. 2218). For provisions covering loans on or purchase of their own stock by national banks, see section 5201, Revised Statutes (12 USC 83); for provisions covering withdrawal of capital or payment of unearned dividends by national banks, see sections 5204 and 5199, Revised Statutes (12 USC 56 and 60); for provisions relating to impairment of capital of national banks, see section 5205, Revised Statutes (12 USC 55) and section 345 of Banking Act of 1935 (12 USC 51b-1).]

### 7. Examinations

As a condition of membership such banks shall likewise be subject to examinations made by direction of the Board of Governors of the Federal Reserve System or of the Federal reserve bank by examiners selected or approved by the Board of Governors of the Federal Reserve System.

[12 USC 325. As added by act of June 21, 1917 (40 Stat. 233), which completely revised this section.]

### 8. Acceptance of State Examinations; Expenses; Reports of Examinations and Confidential Supervisory Information

Whenever the directors of the Federal reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Board of Governors of the Federal Reserve System: *Provided, however,* That when it deems it necessary the board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by State authorities, may, in the discretion of the Board of Governors of the Federal Reserve System, be assessed against the banks examined and, when so assessed, shall be paid by the banks examined. The Board of Governors of the Federal Reserve System, at its discretion, may furnish any report of examination or other confidential supervisory information concerning any State member bank or other entity examined under any other authority of the Board, to any Federal or State agency or authority with supervisory or regulatory authority over the examined entity, to any officer, director, or receiver of the examined entity, and to any other person that the Board determines to be proper.

[12 USC 326. As added by act of June 21, 1917 (40 Stat. 233), which completely revised this section; and amended by acts of June 26, 1930 (46 Stat. 814) and Nov. 12, 1999 (113 Stat. 1475).]

### 9. Forfeiture of Membership

If at any time it shall appear to the Board of Governors of the Federal Reserve System that a member bank has failed to comply with the provisions of this section or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, or has ceased to exercise banking functions without a receiver or liquidating agent having been appointed therefor, it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership. The Board of Governors of the Federal Reserve System may restore membership upon due proof of compliance with the conditions imposed by this section.

[12 USC 327. As amended by act of June 21, 1917 (40 Stat. 233), which completely revised this section; and further amended by act of April 23, 1930 (46 Stat. 251).]

### 10. Voluntary Withdrawal from Membership

Any State bank or trust company desiring to withdraw from membership in a Federal reserve bank may do so, after six months' written notice shall have been filed with the Board of Governors of the Federal Reserve System, upon the surrender and cancellation of all of its holdings of capital stock in the Federal reserve bank: *Provided,* That the Board of Governors of the Federal Reserve System, in its discretion and subject to such conditions as it may prescribe, may waive such six months' notice in individual cases and may permit any such State bank or trust company to withdraw from membership in a Federal reserve bank prior to the expiration of six months from the date of the written notice of its intention to withdraw: *Provided, however,* That no Federal reserve bank shall, except under express authority of the Board of Governors of the Federal Reserve System, cancel within the same calendar year more than twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the board. Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Board of Governors of the Federal Reserve System, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from the date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank.

[12 USC 328. As added by act of June 21, 1917 (40 Stat. 233), which completely revised this section; and amended by act of April 17, 1930 (46 Stat. 170).]

### 11. Capital Required for Membership

No applying bank shall be admitted to membership unless it possesses capital stock and surplus which, in the judgment of the Board of Governors of the Federal Reserve System, are adequate in relation to the character and condition of its assets and to its existing and prospective deposit liabilities and other corporate responsibilities: *Provided,* That no bank engaged in the business of receiving deposits other than trust funds, which does not possess capital stock and surplus in an amount equal to that which would be required for the establishment of a national banking association in the place in which it is located, shall be admitted to membership unless it is, or has been, approved for deposit insurance under the Federal Deposit Insurance Act. The capital stock of a State member bank shall not be reduced except with the prior consent of the Board.

[12 USC 329. As amended by acts of June 21, 1917 (40 Stat. 234), which completely revised this section; March 4, 1923 (42 Stat. 1478); June 16, 1933 (48 Stat. 185); and July 15, 1952 (66 Stat. 633). For provisions relating to minimum capital and surplus of national banks, see section 5138, Revised Statutes.]

### 12. Waiver of Membership Requirements as to Insured Banks

In order to facilitate the admission to membership in the Federal Reserve System of any State bank which is required under subsection (y) of section 12B of this Act to become a member of the Federal Reserve System in order to be an insured bank or continue to have any part of its deposits insured under such section 12B, the Board of Governors of the Federal Reserve System may waive in whole or in part the requirements of this section relating to the admission of such bank to membership: *Provided,* That, if such bank is admitted with a capital less than that required for the organization of a national bank in the same place and its capital and surplus are not, in the judgment of the Board of Governors of the Federal Reserve System, adequate in relation to its liabilities to depositors and other creditors, the said Board may, in its discretion, require such bank to increase its capital and surplus to such amount as the Board may deem necessary within such period prescribed by the Board as in its judgment shall be reasonable in view of all the circumstances: *Provided, however,* That no such bank shall be required to increase its capital to an amount in excess of that required for the organization of a national bank in the same place.

[Formerly 12 USC 329a, as added by act of Aug. 23, 1935 (49 Stat. 704). Omitted from the U.S. Code. The provision of section 12B(y) requiring membership in Federal Reserve System was repealed by act of June 20, 1939 (53 Stat. 842); and all of section 12B was withdrawn and enacted as a separate Federal Deposit Insurance Act by act of Sept. 21, 1950 (64 Stat. 873).]

### 13. Laws to Which Subject

Banks becoming members of the Federal Reserve System under authority of this section shall be subject to the provisions of this section and to those of this Act which relate specifically to member banks, but shall not be subject to examination under the provisions of the first two paragraphs of section fifty-two hundred and forty of the Revised Statutes as amended by section twenty-one of this Act. Subject to the provisions of this Act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks, except that the Board of Governors of the Federal Reserve System may limit the activities of State member banks and subsidiaries of State member banks in a manner consistent with section 24 of the Federal Deposit Insurance Act. No Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association. The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank.

[12 USC 330. As added by act of June 21, 1917 (40 Stat. 234), which completely revised this section; and amended by acts of July 1, 1922 (42 Stat. 821) and Dec. 19, 1991 (105 Stat. 2353). As to limitations on loans by national banks to one person, see section 5200, Revised Statutes.]

### 14. False Certification of Checks

It shall be unlawful for any officer, clerk, or agent of any bank admitted to membership under authority of this section to certify any check drawn upon such bank unless the person or company drawing the check has on deposit therewith at the time such check is certified an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against such bank, but the act of any such officer, clerk, or agent in violation of this section may subject such bank to a forfeiture of its membership in the Federal Reserve System upon hearing by the Board of Governors of the Federal Reserve System.

[12 USC 331. As added by act of June 21, 1917 (40 Stat. 234), which completely revised this section. For additional provisions covering false certification of checks by officers of Federal Reserve Banks and member banks, see also section 5208, Revised Statutes and 18 USC 1004.]

### 15. Government Depositaries and Financial Agents

All banks or trust companies incorporated by special law or organized under the general laws of any State, which are members of the Federal Reserve System, when designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government, as may be required of them. The Secretary of the Treasury shall require of the banks and trust companies thus designated satisfactory security, by the deposit of United States bonds or otherwise, for the safe keeping and prompt payment of the public money deposited with them and for the faithful performance of their duties as financial agents of the Government.

[12 USC 332. As added by act of May 7, 1928 (45 Stat. 492).]

### 16. Admission to Membership of Mutual Savings Banks

Any mutual savings bank having no capital stock (including any other banking institution the capital of which consists of weekly or other time deposits which are segregated from all other deposits and are regarded as capital stock for the purposes of taxation and the declaration of dividends), but having surplus and undivided

profits not less than the amount of capital required for the organization of a national bank in the same place, may apply for and be admitted to membership in the Federal Reserve System in the same manner and subject to the same provisions of law as State banks and trust companies, except that any such savings banks shall subscribe for capital stock of the Federal reserve bank in an amount equal to six-tenths of 1 per centum of its total deposit liabilities as shown by the most recent report of examination of such savings bank preceding its admission to membership. Thereafter such subscription shall be adjusted semiannually on the same percentage basis in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System. If any such mutual savings bank applying for membership is not permitted by the laws under which it was organized to purchase stock in a Federal reserve bank, it shall, upon admission to the system, deposit with the Federal reserve bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock. Thereafter such deposit shall be adjusted semiannually in the same manner as subscriptions for stock. Such deposits shall be subject to the same conditions with respect to repayment as amounts paid upon subscriptions to capital stock by other member banks and the Federal reserve bank shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of stock of such Federal reserve bank. If the laws under which any such savings bank was organized be amended so as to authorize mutual savings banks to subscribe for Federal reserve bank stock, such savings bank shall thereupon subscribe for the appropriate amount of stock in the Federal reserve bank, and the deposit hereinbefore provided for in lieu of payment upon capital stock shall be applied upon such subscription. If the laws under which any such savings bank was organized be not amended at the next session of the legislature following the admission of such savings bank to membership so as to authorize mutual savings banks to purchase Federal reserve bank stock, or if such laws be so amended and such bank fail within six months thereafter to purchase such stock, all of its rights and privileges as a member bank shall be forfeited and its membership in the Federal Reserve System shall be terminated in the manner prescribed elsewhere in this section with respect to State member banks and trust companies. Each such mutual savings bank shall comply with all the provisions of law applicable to State member banks and trust companies, with the regulations of the Board of Governors of the Federal Reserve System and with the conditions of membership prescribed for such savings bank at the time of admission to membership, except as otherwise hereinbefore provided with respect to capital stock.

[12 USC 333. As added by act of June 16, 1933 (48 Stat. 164). As to the amount of capital required for the organization of a national bank, see section 5138, Revised Statutes.]

### 17. Reports of Affiliates

Each bank admitted to membership under this section shall obtain from each of its affiliates other than member banks and furnish to the Federal reserve bank of its district and to the Board of Governors of the Federal Reserve System not less than three reports during each year. Such reports shall be in such form as the Board of Governors of the Federal Reserve System may prescribe, shall be verified by the oath or affirmation of the president or such other officer as may be designated by the board of directors of such affiliate to verify such reports, and shall disclose the information hereinafter provided for as of dates identical with those fixed by the Board of Governors of the Federal Reserve System for reports of the condition of the affiliated member bank. Each such report of an affiliate shall be transmitted as herein provided at the same time as the corresponding report of the affiliated member bank, except that the Board of Governors of the Federal Reserve System may, in its discretion, extend such time for good cause shown. Each such report shall contain such information as in the judgment of the Board of Governors of the Federal Reserve System shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank. The reports of such affiliates shall be published by the bank under the same conditions as govern its own condition reports.

[12 USC 334. As added by act of June 16, 1933 (48 Stat. 165). As to reports of affiliates of national banks, see section 5211, Revised Statutes (12 USC 161).]

### 18. Additional Reports of Affiliates

Any such affiliated member bank may be required to obtain from any such affiliate such additional reports as in the opinion of its Federal reserve bank or the Board of Governors of the Federal Reserve System may be necessary in order to obtain a full and complete knowledge of the condition of the affiliated member bank. Such additional reports shall be transmitted to the Federal reserve bank and the Board of Governors of the Federal

Reserve System and shall be in such form as the Board of Governors of the Federal Reserve System may prescribe.

[12 USC 334. As added by act of June 16, 1933 (48 Stat. 165).]

### 19. Failure to Obtain Reports of Affiliates

Any such affiliated member bank which fails to obtain from any of its affiliates and furnish any report provided for by the two preceding paragraphs of this section shall be subject to a penalty of $100 for each day during which such failure continues, which, by direction of the Board of Governors of the Federal Reserve System, may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located.

[12 USC 334. As added by act of June 16, 1933 (48 Stat. 165) and amended by act of July 1, 1966 (80 Stat. 243). For definition of "affiliate" see section 2 of the Banking Act of 1933, approved June 16, 1933.]

### 20. Dealings in Investment Securities and Stock

State member banks shall be subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under paragraph "Seventh" of section 5136 of the Revised Statutes, as amended. This paragraph shall not apply to any interest held by a State member bank in accordance with section 5136A of the Revised Statutes of the United States and subject to the same conditions and limitations provided in such section.

[12 USC 335. As added by act of June 16, 1933 (48 Stat. 165) and amended by act of Nov. 12, 1999 (113 Stat. 1381).]

### 21. Stock Representing Stock of Other Corporations

After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any State member bank shall bear any statement purporting to represent the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank, nor shall the ownership, sale, or transfer of any certificate representing the stock of any State member bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank or a corporation engaged on June 16, 1934 in holding the bank premises of such member bank: *Provided,* That this section shall not operate to prevent the ownership, sale, or transfer of stock of any other corporation being conditioned upon the ownership, sale, or transfer of a certificate representing stock of a State member bank.

[12 USC 336. As added by act of June 16, 1933 (48 Stat. 165); and amended by act of Aug. 23, 1935 (49 Stat. 710). The Banking Act of 1935, referred to in this paragraph, was approved Aug. 23, 1935. For similar provision applicable to stock of national banks, see section 5139, Revised Statutes (12 USC 52).]

### 22. Examinations of Affiliates

In connection with examinations of State member banks, examiners selected or approved by the Board of Governors of the Federal Reserve System shall make such examinations of the affairs of all affiliates of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of such banks. The expense of examination of affiliates of any State member bank may, in the discretion of the Board of Governors of the Federal Reserve System, be assessed against such bank and, when so assessed, shall be paid by such bank. In the event of the refusal to give any information requested in the course of the examination of any such affiliate, or in the event of the refusal to permit such examination, or in the event of the refusal to pay any expense so assessed, the Board of Governors of the Federal Reserve System may, in its discretion, require any or all State member banks affiliated with such affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System, as provided in this section.

[12 USC 338. As added by act of June 16, 1933 (48 Stat. 166). As to examinations of affiliates of national banks, see this act, section 21.]

**23. Community Development Authority**

A State member bank may make investments directly or indirectly, each of which is designed primarily to promote the public welfare, including the welfare of low- and moderate-income communities or families (such as by providing housing, services, or jobs), to the extent permissible under State law. A State member bank shall not make any such investment if the investment would expose the State member bank to unlimited liability. The Board shall limit a State member bank's investment in any 1 project and a State member bank's aggregate investments under this paragraph. The aggregate amount of investments of any State member bank under this paragraph may not exceed an amount equal to the sum of 5 percent of the State member bank's capital stock actually paid in and unimpaired and 5 percent of the State member bank's unimpaired surplus, unless the Board determines, by order, that a higher amount will pose no significant risk to the affected deposit insurance fund; and the State member bank is adequately capitalized. In no case shall the aggregate amount of investments of any State member bank under this paragraph exceed an amount equal to the sum of 15 percent of the State member bank's capital stock actually paid in and unimpaired and 15 percent of the State member bank's unimpaired surplus. The foregoing standards and limitations apply to investments under this paragraph made by a State member bank directly and by its subsidiaries.

[12 USC 338a. As added by act of Oct. 23, 1992 (106 Stat. 2774) and amended by acts of Feb. 15, 2006 (119 Stat. 3616); Oct. 13, 2006 (120 Stat. 1971); and July 30, 2008 (122 Stat. 2857).]

# Section 9A. Participation in Lotteries Prohibited

**(a) A State member bank may not--**

1. deal in lottery tickets;
2. deal in bets used as a means or substitute for participation in a lottery;
3. announce, advertise, or publicize the existence of any lottery;
4. announce, advertise, or publicize the existence or identity of any participant or winner, as such, in a lottery.

**(b) A State member bank may not permit--**

1. the use of any part of any of its banking offices by any person for any purpose forbidden to the bank under subsection (a), or
2. direct access by the public from any of its banking offices to any premises used by any person for any purpose forbidden to the bank under subsection (a).

**(c) As used in this section--**

1. The term "deal in" includes making, taking, buying, selling, redeeming, or collecting.
2. The term "lottery" includes any arrangement whereby three or more persons (the "participants") advance money or credit to another in exchange for the possibility or expectation that one or more but not all of the participants (the "winners") will receive by reason of their advances more than the amounts they have advanced, the identity of the winners being determined by any means which includes--

   A. a random selection;
   B. a game, race, or contest; or
   C. any record or tabulation of the result of one or more events in which any participant has no interest except for its bearing upon the possibility that he may become a winner.

3. The term "lottery ticket" includes any right, privilege, or possibility (and any ticket, receipt, record, or other evidence of any such right, privilege, or possibility) of becoming a winner in a lottery.

**(d)** Nothing contained in this section prohibits a State member bank from accepting deposits or cashing or otherwise handling checks or other negotiable instruments, or performing other lawful banking services for a State operating a lottery, or for an officer or employee of that State who is charged with the administration of the lottery.
**(e)** The Board of Governors of the Federal Reserve System shall issue such regulations as may be necessary to the strict enforcement of this section and the prevention of evasions thereof.

[12 USC 339. As added by act of Dec. 15, 1967 (81 Stat. 609) effective April 1, 1968. Corresponding prohibitions are contained in section 5136B of the Revised Statutes, section 20 of the Federal Deposit Insurance Act, and section 410 of the National Housing Act with respect to national banks, nonmember insured banks, and institutions insured by the Federal Savings and Loan Insurance Corporation, respectively.]

# Section 9B. Resolution of Clearing Banks

**(a) Conservatorship or receivership**

1. **Appointment.** The Board may appoint a conservator or receiver to take possession and control of any uninsured State member bank which operates, or operates as, a multilateral clearing organization pursuant to section 409 of the Federal Deposit Insurance Corporation Improvement Act of 1991 to the same extent and in the same manner as the Comptroller of the Currency may appoint a conservator or receiver for a national bank.
2. **Powers.** The conservator or receiver for an uninsured State member bank referred to in paragraph (1) shall exercise the same powers, functions, and duties, subject to the same limitations, as a conservator or receiver for a national bank.

**(b) Board authority.** The Board shall have the same authority with respect to any conservator or receiver appointed under subsection (a), and the uninsured State member bank for which the conservator or receiver has been appointed, as the Comptroller of the Currency has with respect to a conservator or receiver for a national bank and the national bank for which the conservator or receiver has been appointed.

**(c) Bankruptcy proceedings.** The Board (in the case of an uninsured State member bank which operates, or operates as, such a multilateral clearing organization) may direct a conservator or receiver appointed for the bank to file a petition pursuant to title 11, United States Code, in which case, title 11, United States Code, shall apply to the bank in lieu of otherwise applicable Federal or State insolvency law.

[12 USC 339a. As added by act of Dec. 21, 2000 (114 Stat. 2763A-392).]

# Section 10. Board of Governors of the Federal Reserve System

**1. Appointment and Qualification of Members**

The Board of Governors of the Federal Reserve System (hereinafter referred to as the "Board") shall be composed of seven members, to be appointed by the President, by and with the advice and consent of the Senate, after the date of enactment of the Banking Act of 1935, for terms of fourteen years except as hereinafter provided, but each appointive member of the Federal Reserve Board in office on such date shall continue to serve as a member of the Board until February 1, 1936, and the Secretary of the Treasury and the Comptroller of the Currency shall continue to serve as members of the Board until February 1, 1936. In selecting the members of the 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 financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. The members of the Board shall devote their entire time to the business of the Board and shall each receive an annual salary of $15,000, payable monthly, together with actual necessary traveling expenses.

[12 USC 241. As amended by acts of June 3, 1922 (42 Stat. 620); Aug. 23, 1935 (49 Stat. 704). Prior to the enactment of the Banking Act of 1935, approved Aug. 23, 1935, the Board of Governors of the Federal Reserve System was known as the Federal Reserve Board. See note to the third paragraph of section 1. The portion of this paragraph dealing with salaries of Board members has in effect been amended numerous times, most recently by Executive Order. Prior to the act of December 27, 2000, section 1002 of which revised the executive schedule, the salary of the chairman of the Board was set at executive schedule level 2 and the salary of other members at level 3. The salary of the chairman of the Board is now set at executive schedule level I, and the salary of other members at level II (see 2 USC 358 and 5 USC 5313 and 5314).]

**2. Members Ineligible to Serve Member Banks; Term of Office; Chairman and Vice Chairman**

The members of the Board 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, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office on the date of enactment of the Banking Act of 1935, the President shall fix the term of the successor to such member at not to exceed fourteen years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one member in any two-year period, and thereafter each member shall hold office for a term of fourteen years from the expiration of the term of his predecessor, unless sooner removed for cause by the President. Of the persons thus appointed, 1 shall be designated by the President, by and with the advice and consent of the Senate, to serve as Chairman of the Board for a term of 4 years, and 2 shall be designated by the President, by and with the advice and consent of the Senate, to serve as Vice Chairmen of the Board, each for a term of 4 years, 1 of whom shall serve in the absence of the Chairman, as provided in the fourth undesignated paragraph of this section, and 1 of whom shall be designated Vice Chairman for Supervision. The Vice Chairman for Supervision shall develop policy recommendations for the Board regarding supervision and regulation of depository institution holding companies and other financial firms supervised by the Board, and shall oversee the supervision and regulation of such firms. The chairman of the Board, subject to its supervision, shall be its active executive officer. Each member of the Board shall within fifteen days after notice of appointment make and subscribe to the oath of office. Upon the expiration of their terms of office, members of the Board shall continue to serve until their successors are appointed and have qualified. Any person appointed as a member of the Board after the date of enactment of the Banking Act of 1935 shall not be eligible for reappointment as such member after he shall have served a full term of fourteen years.

[[12 USC 242. As amended by acts of March 3, 1919 (40 Stat. 1315); June 3, 1922 (42 Stat. 620); June 16, 1933 (48 Stat. 166); Aug. 23, 1935 (49 Stat. 704); November 16, 1977 (91 Stat. 1388); and act of July 21, 2010 (124 Stat. 2126). The Banking Act of 1935, referred to in this paragraph, became effective Aug. 23, 1935. Prior to the enactment of that act, the chairman and vice chairman of the Board of Governors of the Federal Reserve System were known as the governor and vice governor of the Federal Reserve Board, respectively. See note to the third paragraph of section 1. The act of November 16, 1977, amended the second sentence of this paragraph. The amendment takes effect on Jan. 1, 1979, and applies to individuals who are designated by the President on or after such date to serve as chairman or vice chairman. The act of July 21, 2010, designated a new Vice Chairman for Supervision.]

**3. Assessments on Federal Reserve Banks**

The Board of Governors of the Federal Reserve System 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 the salaries of its members and employees for the half year succeeding the levying of such assessments, together with any deficit carried forward from the preceding half year, and such assessments may include amounts sufficient to provide for the acquisition by the Board in its own name of such site or building in the District of Columbia as in its judgment alone shall be necessary for the purpose of providing suitable and adequate quarters for the performance of its functions. After September 1, 2000, the Board may also use such assessments to acquire, in its own name, a site or building (in addition to the facilities existing on such date) to provide for the performance of the functions of the Board. After approving such plans,

estimates, and specifications as it shall have caused to be prepared, the Board may, notwithstanding any other provision of law, cause to be constructed on any site so acquired by it a building or buildings suitable and adequate in its judgment for its purposes and proceed to take all such steps as it may deem necessary or appropriate in connection with the construction, equipment, and furnishing of such building or buildings. The Board may maintain, enlarge, or remodel any building or buildings so acquired or constructed and shall have sole control of such building or buildings and space therein.

[12 USC 243. As reenacted without change by act of June 3, 1922 (42 Stat. 621); and amended by acts of June 19, 1934 (48 Stat. 1108) and Dec. 27, 2000 (114 Stat. 3027). By act approved June 27, 1935 (49 Stat. 425), provision was made for the furnishing of steam from the central heating plant to the Federal Reserve Board, now the Board of Governors of the Federal Reserve System.]

### 4. Principal Offices; Expenses; Deposit of Funds; Members Not to Be Officers or Stockholders of Banks

The principal offices of the Board shall be in the District of Columbia. At meetings of the Board the chairman shall preside, and, in his absence, the vice chairman shall preside. In the absence of the chairman and the vice chairman, the board shall elect a member to act as chairman pro tempore. The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal Reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, whose employment, compensation, leave, and expenses shall be governed solely by the provisions of this Act, specific amendments thereof, and rules and regulations of the Board not inconsistent therewith; and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys. No member of the Board of Governors of the Federal Reserve System shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Board of Governors of the Federal Reserve System he shall certify under oath that he has complied with this requirement, and such certification shall be filed with the secretary of the Board. Whenever a vacancy shall occur, other than by expiration of term, among the six members of the Board of Governors of the Federal Reserve System appointed by the President as above provided, a successor shall be appointed by the President, by and with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of his predecessor.

[12 USC 244. As amended by acts of June 3, 1922 (42 Stat. 621); June 16, 1933 (48 Stat. 167); Aug. 23, 1935 (49 Stat. 705). The reference to "the six members" of the Board of Governors is an apparent error in the law and should read "the seven members." See section 10, first paragraph.]

### 5. Vacancies During Recess of Senate

The President shall have power to fill all vacancies that may happen on the Board of Governors of the Federal Reserve System during the recess of the Senate by granting commissions which shall expire with the next session of the Senate.

[12 USC 245. As amended by act of June 3, 1922 (42 Stat. 621).]

### 6. Reservation of Powers of Secretary of Treasury

Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Board of Governors of the Federal Reserve System or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

[12 USC 246. As reenacted without change by act of June 3, 1922 (42 Stat. 621).]

### 7. Annual Report

The Board of Governors of the Federal Reserve System shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress. The report required under this paragraph shall include the reports required under section 707 of the Equal Credit Opportunity Act, section 18(f)(7) of the Federal Trade Commission Act, section 114 of the Truth in Lending Act, and the tenth undesignated paragraph of this section.

[12 USC 247. As reenacted without change by act of June 3, 1922 (42 Stat. 621) and amended by acts of June 3, 1922, and Dec. 27, 2000 (114 Stat. 3030).]

**8. Issuance of National Currency and Federal Reserve Notes**

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows:

Sec. 324. There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds, and under the general supervision of the Board of Governors of the Federal Reserve System, of all Federal Reserve notes, except for the cancellation and destruction, and accounting with respect to such cancellation and destruction, of Federal Reserve notes unfit for circulation, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury. The Comptroller of the Currency shall have the same authority over matters within the jurisdiction of the Comptroller as the Director of the Office of Thrift Supervision has over matters within the Director's jurisdiction under section 3(b)(3) of the Home Owners' Loan Act. The Secretary of the Treasury may not delay or prevent the issuance of any rule or the promulgation of any regulation by the Comptroller of the Currency.

[12 USC 1. As reenacted without change by act of June 3, 1922 (42 Stat. 621); and amended by acts of May 20, 1966 (80 Stat. 161) and Sept. 23, 1994 (108 Stat. 2232).]

**9. Branch Federal Reserve Bank Buildings**

No Federal Reserve bank may authorize the acquisition or construction of any branch building, or enter into any contract or other obligation for the acquisition or construction of any branch building, without the approval of the Board.

[12 USC 522. As added by act of June 3, 1922 (42 Stat. 622); and amended by acts of Feb. 6, 1923 (42 Stat. 1223); July 30, 1947 (61 Stat. 520); May 29, 1953 (67 Stat. 41); Aug. 31, 1962 (76 Stat. 418); Oct. 28, 1974 (88 Stat. 1505); and Oct. 24, 1992 (106 Stat. 3144).]

**10. Record of Open Market and Other Policies**

The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph.

[12 USC 247a. As added by act of Aug. 23, 1935 (49 Stat. 705).]

**12. Appearances before Congress***

The Vice Chairman for Supervision shall appear before the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives and at semi-annual hearings regarding the efforts, activities, objectives, and plans of the Board with respect to the conduct of

supervision and regulation of depository institution holding companies and other financial firms supervised by the Board.

[12 USC 247b. As added by act of July 21, 2010 (124 Stat. 2126).]

* The act of July 21, 2010, added paragraph 12 without adding paragraph 11.

# Section 10A. Emergency Advances to Groups of Member Banks *

**1. Authority of Reserve Banks to Make Advances**
Upon receiving the consent of not less than five members of the Board of Governors of the Federal Reserve System, any Federal reserve bank may make advances, in such amount as the board of directors of such Federal reserve bank may determine, to groups of five or more member banks within its district, a majority of them independently owned and controlled, upon their time or demand promissory notes, provided the bank or banks which receive the proceeds of such advances as herein provided have no adequate amounts of eligible and acceptable assets available to enable such bank or banks to obtain sufficient credit accommodations from the Federal reserve bank through rediscounts or advances other than as provided in section 10(b). The liability of the individual banks in each group must be limited to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group, but such advances may be made to a lesser number of such member banks if the aggregate amount of their deposit liability constitutes at least 10 per centum of the entire deposit liability of the member banks within such district. Such banks shall be authorized to distribute the proceeds of such loans to such of their number and in such amount as they may agree upon, but before so doing they shall require such recipient banks to deposit with a suitable trustee, representing the entire group, their individual notes made in favor of the group protected by such collateral security as may be agreed upon. Any Federal reserve bank making such advance shall charge interest or discount thereon at a rate not less than 1 per centum above its discount rate in effect at the time of making such advance. No such note upon which advances are made by a Federal reserve bank under this section shall be eligible under section 16 of this Act as collateral security for Federal reserve notes.

[12 USC 347a. As added by act of Feb. 27, 1932 (47 Stat. 56).]

**2. Foreign Obligations as Security for Advances**
No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.

[12 USC 347a. As added by act of Feb. 27, 1932 (47 Stat. 56).]

**3. Authority of Member Banks to Obligate Themselves**
No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.

[12 USC 347a. As added by act of Feb. 27, 1932 (47 Stat. 56).]

# Section 10B. Advances to Individual Member Banks *

**(a)** Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Notwithstanding the foregoing, any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time notes having such maturities as the Board may prescribe and which are secured by mortgage loans covering a one-to-four family residence. Such advances shall bear interest at a rate equal to the lowest discount rate in effect at such Federal Reserve bank on the date of such note.

[12 USC 347b(a). As added by act of Feb. 27, 1932 (47 Stat. 56); and amended by acts of Feb. 3, 1933 (47 Stat. 794); March 9, 1933 (48 Stat. 7); Aug. 23, 1935 (49 Stat. 705); Oct. 18, 1974 (88 Stat. 1368); March 31, 1980 (94 Stat. 140); and Dec. 19, 1991 (105 Stat. 2279).]

**Limitations on Advances**

**(b)**

1. Except as provided in paragraph (2), no advances to any undercapitalized depository institution by any Federal Reserve bank under this section may be outstanding for more than 60 days in any 120-day period.
2.
A. If--
i. the head of the appropriate Federal banking agency certifies in advance in writing to the Federal Reserve bank that any depository institution is viable; or
ii. (ii)the Board conducts an examination of any depository institution and the Chairman of the Board certifies in writing to the Federal Reserve bank that the institution is viable, the limitation contained in paragraph (1) shall not apply during the 60-day period beginning on the date such certification is received.
B. The 60-day period may be extended for additional 60-day periods upon receipt by the Federal Reserve bank of additional written certifications under subparagraph (A) with respect to each such additional period.
C. The authority of the head of any agency to issue a written certification of viability under this paragraph may not be delegated to any other person.
D. Notwithstanding paragraph (1), an undercapitalized depository institution which does not have a certificate of viability in effect under this paragraph may have advances outstanding for more than 60 days in any 120-day period if the Board elects to treat--
i. such institution as critically undercapitalized under paragraph (3); and
ii. any such advance as an advance described in subparagraph (A)(i) of paragraph (3).
E. Notwithstanding any other provision of this section, if--
i. in the case of any critically undercapitalized depository institution--
I. any advance under this section to such institution is outstanding without payment having been demanded as of the end of the 5-day period beginning on the date the institution becomes a critically undercapitalized depository institution; or
II. any new advance is made to such institution under this section after the end of such period; and
ii. after the end of that 5-day period, the Deposit Insurance Fund of the Federal Deposit Insurance Corporation incurs a loss exceeding the loss that the Corporation would have incurred if it had liquidated that institution as of the end of that period the Board shall, subject to the limitations in subparagraph (B), be liable to the Federal Deposit Insurance Corporation for the excess loss, without regard to the terms of the advance or any collateral pledged to secure the advance.
F. The liability of the Board under subparagraph (A) shall not exceed the lesser of the following:
i. The amount of the loss the Board or any Federal Reserve bank would have incurred on the increases in the amount of advances made after the 5-day period referred to in subparagraph (A) if those increased advances had been unsecured.
ii. The interest received on the increases in the amount of advances made after the 5-day period referred to in subparagraph (A).
G. The Board shall pay the Federal Deposit Insurance Corporation the amount of any liability of the Board under subparagraph (A).
H. The Board shall report to the Congress on any excess loss liability it incurs under subparagraph (A), as limited by subparagraph (B)(i), and the reasons therefore, not later than 6 months after incurring the liability.
3. A Federal Reserve bank shall have no obligation to make, increase, renew, or extend any advance or discount under this Act to any depository institution.
4.

A. The term *"appropriate Federal banking agency"* has the same meaning as in section 3 of the Federal Deposit Insurance Act.

B. The term "*critically undercapitalized*" has the same meaning as in section 38 of the Federal Deposit Insurance Act.

C. The term *"depository institution"* has the same meaning as in section 3 of the Federal Deposit Insurance Act.

D. The term *"undercapitalized depository institution"* means any depository institution which--

i. is undercapitalized, as defined in section 38 of the Federal Deposit Insurance Act; or

ii. has a composite CAMEL rating of 5 under the Uniform Financial Institutions Rating System (or an equivalent rating by any such agency under a comparable rating system) as of the most recent examination of such institution.

E. A depository institution is *"viable"* if the Board or the appropriate Federal banking agency determines, giving due regard to the economic conditions and circumstances in the market in which the institution operates, that the institution--

i. is not critically undercapitalized;

ii. is not expected to become critically undercapitalized; and

iii. is not expected to be placed in conservatorship or receivership.

[12 USC 347b(b). As added by act of Dec. 19, 1991 (105 Stat. 2279) and amended by act of Feb. 15, 2006 (119 Stat. 3616).]

* Previously section 10(b), this section was redesignated by act of Dec. 19, 1991 (105 Stat. 2279).

## Section 11. Powers of Board of Governors of the Federal Reserve System

The Board of Governors of the Federal Reserve System shall be authorized and empowered:

**Examinations and Reports**

**(a)**

1. 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.
2. To require any depository institution specified in this paragraph to make, at such intervals as the Board may prescribe, such reports of its liabilities and assets as the Board may determine to be necessary or desirable to enable the Board to discharge its responsibility to monitor and control monetary and credit aggregates. Such reports shall be made (A) directly to the Board in the case of member banks and in the case of other depository institutions whose reserve requirements under section 19 of this Act exceed zero, and (B) for all other reports to the Board through the (i) Federal Deposit Insurance Corporation in the case of insured State savings associations that are insured depository institutions (as defined in section 3 of the Federal Deposit Insurance Act), State nonmember banks, savings banks, and mutual savings banks, (ii) National Credit Union Administration Board in the case of insured credit unions, (iii) the Comptroller of the Currency in the case of any Federal savings association which is an insured depository institution (as defined in section 3 of the Federal Deposit Insurance Act) or which is a member as defined in section 2 of the Federal Home Loan Bank Act, and (iv) such State officer or agency as the Board may designate in the case of any other type of bank, savings association, or credit union. The Board shall endeavor to avoid the imposition of unnecessary burdens on reporting institutions and the duplication of other reporting requirements. Except as otherwise required by law, any data provided to any department, agency, or instrumentality of the United States pursuant to other reporting requirements shall be made available to the Board. The Board may classify depository institutions for the purposes of this paragraph and may impose different requirements on each such class.

[12 USC 248(a). As amended by acts of March 31, 1980 (94 Stat. 132); Aug. 9, 1989 (103 Stat. 439); and July 21, 2010 (124 Stat. 1556).]

**Rediscounts by One Reserve Bank for Another**

**(b)** To permit, or, on the affirmative vote of at least five members of the Board of Governors of the Federal Reserve System to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Board of Governors of the Federal Reserve System.

[12 USC 248(b). Part of original Federal Reserve Act; not amended.]

**Suspension of Reserve Requirements**

**(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 requirements specified in this Act.

[12 USC 248(c). As amended by acts of June 12, 1945 (59 Stat. 237) and March 18, 1968 (82 Stat. 50).]

**Issue and Retirement of Federal Reserve Notes**

**(d)** To supervise and regulate through the Secretary of the Treasury the issue and retirement of Federal reserve notes, except for the cancellation and destruction, and accounting with respect to such cancellation and destruction, of notes unfit for circulation, and to prescribe rules and regulations under which such notes may be delivered by the Secretary of the Treasury to the Federal reserve agents applying therefor.

[12 USC 248(d). As amended by acts of May 20, 1966 (80 Stat. 161) and Sept. 23, 1994 (108 Stat. 2293). For provisions governing the issue of Federal Reserve notes, see section 16.]

**Reclassification of Reserve Cities**

**(e)** To add to the number of cities classified as reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassifying existing reserve cities or to terminate their designation as such.

[12 USC 248(e). As amended by act of July 28, 1959 (73 Stat. 264), effective July 28, 1962. The reference to "section twenty" is an error in the law and should correctly refer to "section nineteen."]

**Suspension or Removal of Officers and Directors of Reserve Banks**

**(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 Board of Governors of the Federal Reserve System to the removed officer or director and to said bank.

[12 USC 248(f). Part of original Federal Reserve Act; not amended.]

**Charging Off Losses of Reserve Banks**

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

[12 USC 248(g). Part of original Federal Reserve Act; not amended.]

**Suspension, Liquidation, or Reorganization of 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.

[12 USC 248(h). Part of original Federal Reserve Act; not amended.]

**Rules and Regulations**

**(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 make all rules and regulations necessary to enable said board effectively to perform the same.

[12 USC 248(i). Part of original Federal Reserve Act; not amended.]

**Supervision Over Reserve Banks**

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

[12 USC 248(j). Part of original Federal Reserve Act; not amended.]

**Delegation of Functions**

**(k)** To delegate, by published order or rule and subject to the Administrative Procedure Act, any of its functions, other than those relating to rulemaking or pertaining principally to monetary and credit policies, to one or more administrative law judges, members or employees of the Board, or Federal Reserve banks. The assignment of responsibility for the performance of any function that the Board determines to delegate shall be a function of the Chairman. The Board shall, upon the vote of one member, review action taken at a delegated level within such time and in such manner as the Board shall by rule prescribe. The Board of Governors may not delegate to a Federal reserve bank its functions for the establishment of policies for the supervision and regulation of depository institution holding companies and other financial firms supervised by the Board of Governors.

[12 USC 248(k). As added by the acts of Nov. 5, 1966 (80 Stat. 1314); March 27, 1978 (92 Stat. 183); and July 21, 2010 (124 Stat. 2126).]

**Employees of Board of Governors of the Federal Reserve System**

**(l)** To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to 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 January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: Provided, That nothing herein shall prevent the President from placing said employees in the classified service.

[12 USC 248(l). Part of original Federal Reserve Act; not amended.]

**Loans by Member Banks on Stock or Bond Collateral**

[Subsection (m) (12 USC 248(m)) was repealed by act of Nov. 12, 1999 (113 Stat. 1479).]

### Examination of Depository Institutions and Affiliates

**(n)** To examine, at the Board's discretion, any depository institution, and any affiliate of such depository institution, in connection with any advance to, any discount of any instrument for, or any request for any such advance or discount by, such depository institution under this Act.

[12 USC 248(n). As added by act of Dec. 19, 1991. The original subsection (n), which authorized the Secretary of the Treasury, as necessary, to require the payment and delivery of all gold coin, gold bullion, and gold certificates to the Treasurer of the United States in exchange for another form of U.S. currency, was repealed by act of Sept. 13, 1982 (96 Stat. 1068).]

### Appointment of Conservator or Receiver

**(o)** The Board may appoint the Federal Deposit Insurance Corporation as conservator or receiver for a State member bank under section 11(c)(9) of the Federal Deposit Insurance Act.

[12 USC 248(o). As added by act of Dec. 19, 1991 (105 Stat. 2273) and redesignated by act of Oct. 28, 1992 (106 Stat. 4080).]

### Authority

**(p)** The Board may act in its own name and through its own attorneys in enforcing any provision of this title, regulations promulgated hereunder, or any other law or regulation, or in any action, suit, or proceeding to which the Board is a party and which involves the Board's regulation or supervision of any bank, bank holding company (as defined in section 2 of the Bank Holding Company Act of 1956), or other entity, or the administration of its operations.

[12 USC 248(p). As added by act of Sept. 23, 1994 (108 Stat. 2232).]

### Uniform Protection Authority for Federal Reserve Facilities

**(q)**

1. Notwithstanding any other provision of law, to authorize personnel to act as law enforcement officers to protect and safeguard the premises, grounds, property, personnel, including members of the Board, of the Board, or any Federal reserve bank, and operations conducted by or on behalf of the Board or a reserve bank.
2. The Board may, subject to the regulations prescribed under paragraph (5), delegate authority to a Federal reserve bank to authorize personnel to act as law enforcement officers to protect and safeguard the bank's premises, grounds, property, personnel, and operations conducted by or on behalf of the bank.
3. Law enforcement officers designated or authorized by the Board or a reserve bank under paragraph (1) or (2) are authorized while on duty to carry firearms and make arrests without warrants for any offense against the United States committed in their presence, or for any felony cognizable under the laws of the United States committed or being committed within the buildings and grounds of the Board or a reserve bank if they have reasonable grounds to believe that the person to be arrested has committed or is committing such a felony. Such officers shall have access to law enforcement information that may be necessary for the protection of the property or personnel of the Board or a reserve bank.
4. For purposes of this subsection, the term "law enforcement officers" means personnel who have successfully completed law enforcement training and are authorized to carry firearms and make arrests pursuant to this subsection.
5. The law enforcement authorities provided for in this subsection may be exercised only pursuant to regulations prescribed by the Board and approved by the Attorney General.

[12 USC 248(q). As added by act of Oct. 26, 2001 (115 Stat. 333).]

### Authority of Board When Sufficient Number of Members Are Not in Office or Available

**(r)**

1. Any action that this Act provides may be taken only upon the affirmative vote of 5 members of the Board may be taken upon the unanimous vote of all members then in office if there are fewer than 5 members in office at the time of the action.

A. Any action that the Board is otherwise authorized to take under section 13(3) may be taken upon the unanimous vote of all available members then in office, if--

i. at least 2 members are available and all available members participate in the action;

ii. the available members unanimously determine that--

I. unusual and exigent circumstances exist and the borrower is unable to secure adequate credit accommodations from other sources;

II. action on the matter is necessary to prevent, correct, or mitigate serious harm to the economy or the stability of the financial system of the United States;

III. despite the use of all means available (including all available telephonic, telegraphic, and other electronic means), the other members of the Board have not been able to be contacted on the matter; and

IV. action on the matter is required before the number of Board members otherwise required to vote on the matter can be contacted through any available means (including all available telephonic, telegraphic, and other electronic means); and

iii. any credit extended by a Federal reserve bank pursuant to such action is payable upon demand of the Board.

B. The available members of the Board shall document in writing the determinations required by subparagraph (A)(ii), and such written findings shall be included in the record of the action and in the official minutes of the Board, and copies of such record shall be provided as soon as practicable to the members of the Board who were not available to participate in the action and to the Chairman of the Committee on Banking, Housing, and Urban Affairs of the Senate and to the Chairman of the Committee on Financial Services of the House of Representatives.

[12 USC 248(r). As added by act of November 26, 2002 (116 Stat. 2340).]

**Federal Reserve Transparency and Release of Information**

**(s)**

1. In general. In order to ensure the disclosure in a timely manner consistent with the purposes of this Act of information concerning the borrowers and counterparties participating in emergency credit facilities, discount window lending programs, and open market operations authorized or conducted by the Board or a Federal reserve bank, the Board of Governors shall disclose, as provided in paragraph (2)—

A. the names and identifying details of each borrower, participant, or counterparty in any credit facility or covered transaction;

B. the amount borrowed by or transferred by or to a specific borrower, participant, or counterparty in any credit facility or covered transaction;

C. the interest rate or discount paid by each borrower, participant, or counterparty in any credit facility or covered transaction; and

D. information identifying the types and amounts of collateral pledged or assets transferred in connection with participation in any credit facility or covered transaction.

2. Mandatory release date. In the case of—

A. a credit facility, the Board shall disclose the information described in paragraph (1) on the date that is 1 year after the effective date of the termination by the Board of the authorization of the credit facility; and

B. a covered transaction, the Board shall disclose the information described in paragraph (1) on the last day of the eighth calendar quarter following the calendar quarter in which the covered transaction was conducted.

3. Earlier release date authorized. The Chairman of the Board may publicly release the information described in paragraph (1) before the relevant date specified in paragraph (2), if the Chairman

determines that such disclosure would be in the public interest and would not harm the effectiveness of the relevant credit facility or the purpose or conduct of covered transactions.

4. Definitions. For purposes of this subsection, the following definitions shall apply:

A. Credit facility. The term “credit facility” has the same meaning as in section 714(f)(1)(A) of title 31, United States Code.

B. Covered transaction. The term “covered transaction” means—

i. any open market transaction with a nongovernmental third party conducted under the first undesignated paragraph of section 14 or subparagraph (a), (b), or (c) of the 2nd undesignated paragraph of such section, after the date of enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act; and

ii. any advance made under section 10B after the date of enactment of that Act.

5. Termination of credit facility by operation of law. A credit facility shall be deemed to have terminated as of the end of the 24-month period beginning on the date on which the credit facility ceases to make extensions of credit and loans, unless the credit facility is otherwise terminated by the Board before such date.

6. Consistent treatment of information. Except as provided in this subsection or section 13(3)(D), or in section 714(f)(3)(C) of title 31, United States Code, the information described in paragraph (1) and information concerning the transactions described in section 714(f) of such title, shall be confidential, including for purposes of section 552(b)(3) of title 5 of such Code, until the relevant mandatory release date described in paragraph (2), unless the Chairman of the Board determines that earlier disclosure of such information would be in the public interest and would not harm the effectiveness of the relevant credit facility or the purpose of conduct of the relevant transactions.

7. Protection of personal privacy. This subsection and section 13(3)(C), section 714(f)(3)(C) of title 31, United States Code, and subsection (a) or (c) of section 1109 of the Dodd-Frank Wall Street Reform and Consumer Protection Act shall not be construed as requiring any disclosure of nonpublic personal information (as defined for purposes of section 502 of the Gramm-Leach-Bliley Act (12 U.S.C. 6802)) concerning any individual who is referenced in collateral pledged or assets transferred in connection with a credit facility or covered transaction, unless the person is a borrower, participant, or counterparty under the credit facility or covered transaction.

8. Study of FOIA exemption impact.

A. Study. The Inspector General of the Board of Governors of the Federal Reserve System shall—

i. conduct a study on the impact that the exemption from section 552(b)(3) of title 5 (known as the Freedom of Information Act) established under paragraph (6) has had on the ability of the public to access information about the administration by the Board of Governors of emergency credit facilities, discount window lending programs, and open market operations; and

ii. make any recommendations on whether the exemption described in clause (i) should remain in effect.

B. Report. Not later than 30 months after the date of enactment of this section, the Inspector General of the Board of Governors of the Federal Reserve System shall submit a report on the findings of the study required under subparagraph (A) to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives, and publish the report on the website of the Board.

9. Rule of construction. Nothing in this section is meant to affect any pending litigation or lawsuit filed under section 552 of title 5, United States Code (popularly known as the Freedom of Information Act), on or before the date of enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

[12 USC 248(s). As added by act of July 21, 2010 (124 Stat. 2118).]

**Assessments, Fees, and Other Charges for Certain Companies**

**[t](s)***

1. In general. The Board shall collect a total amount of assessments, fees, or other charges from the companies described in paragraph (2) that is equal to the total expenses the Board estimates are necessary or appropriate to carry out the supervisory and regulatory responsibilities of the Board with respect to such companies.

2. Companies. The companies described in this paragraph are—

A. all bank holding companies having total consolidated assets of $50,000,000,000 or more;

B. all savings and loan holding companies having total consolidated assets of $50,000,000,000 or more; and
C. all nonbank financial companies supervised by the Board under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

[12 USC 248(s). As added by act of July 21, 2010 (124 Stat. 1527).]

* There are two subsections designated as (s), as enacted by act of July 21, 2010 (124 Stat. 1527, 2118); the second of these should probably be designated as subsection (t).

## Section 11A. Pricing of Services

**(a)** Not later than the first day of the sixth month after the date of enactment of the Monetary Control Act of 1980, the Board shall publish for public comment a set of pricing principles in accordance with this section and a proposed schedule of fees based upon those principles for Federal Reserve bank services to depository institutions, and not later than the first day of the eighteenth month after the date of enactment of the Monetary Control Act of 1980, the Board shall begin to put into effect a schedule of fees for such services which is based on those principles.

**(b)** The services which shall be covered by the schedule of fees under subsection (a) are--

1. currency and coin services;
2. check clearing and collection services;
3. wire transfer services;
4. automated clearinghouse services;
5. settlement services;
6. securities safekeeping services;
7. Federal Reserve float; and
8. any new services which the Federal Reserve System offers, including but not limited to payment services to effectuate the electronic transfer of funds.

**(c)** The schedule of fees prescribed pursuant to this section shall be based on the following principles:

1. All Federal Reserve bank services covered by the fee schedule shall be priced explicitly.
2. All Federal Reserve bank services covered by the fee schedule shall be available to nonmember depository institutions and such services shall be priced at the same fee schedule applicable to member banks, except that nonmembers shall be subject to any other terms, including a requirement of balances sufficient for clearing purposes, that the Board may determine are applicable to member banks.
3. Over the long run, fees shall be established on the basis of all direct and indirect costs actually incurred in providing the Federal Reserve services priced, including interest on items credited prior to actual collection, overhead, and an allocation of imputed costs which takes into account the taxes that would have been paid and the return on capital that would have been provided had the services been furnished by a private business firm, except that the pricing principles shall give due regard to competitive factors and the provision of an adequate level of such services nationwide.
4. Interest on items credited prior to collection shall be charged at the current rate applicable in the market for Federal funds.

**(d)** The Board shall require reductions in the operating budgets of the Federal Reserve banks commensurate with any actual or projected decline in the volume of services to be provided by such banks. The full amount of any savings so realized shall be paid into the United States Treasury.

**(e)** All depository institutions, as defined in section 19(b)(1) (12 U.S.C. 461(b)(1)), may receive for deposit and as deposits any evidences of transaction accounts, as defined by section 19(b)(1) (12 U.S.C. 461(b)(1)) from other depository institutions, as defined in section 19(b)(1) (12 U.S.C. 461(b)(1)) or from any office of any

Federal Reserve bank without regard to any Federal or State law restricting the number or the physical location or locations of such depository institutions.

[12 USC 248a. As added by acts of March 31, 1980 (94 Stat. 140) and Aug. 10, 1987 (101 Stat. 652).]

# Section 11B. Annual Independent Audits of Federal Reserve Banks and Board

The Board shall order an annual independent audit of the financial statements of each Federal reserve bank and the Board.

[12 USC 248b. As added by act of Nov. 12, 1999 (113 Stat. 1475).]

# Section 12. Federal Advisory Council

**1. Creation, Members, and Meetings**
There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Board of Governors of the Federal Reserve System. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Board of Governors of the Federal Reserve System. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies, shall serve for the unexpired term.

[12 USC 261. Part of original Federal Reserve Act; not amended.]

**2. Powers**
The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Board of Governors of the Federal Reserve System on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

[12 USC 262. Part of original Federal Reserve Act; not amended.]

# Section 12A. Federal Open Market Committee

**Creation, Members, and Meetings**
**(a)** There is hereby created a Federal Open Market Committee (hereinafter referred to as the "Committee"), which shall consist of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks to be selected as hereinafter provided. Such representatives shall be presidents or first vice presidents of Federal Reserve banks and, beginning with the election for the term commencing March 1, 1943, shall be elected annually as follows: One by the board of directors of the Federal Reserve Bank of New York, one by the boards of directors of the Federal Reserve Banks of Boston, Philadelphia, and Richmond, one by the boards of directors of the Federal Reserve Banks of Cleveland and Chicago, one by the boards of directors of the Federal Reserve Banks of Atlanta, Dallas, and St. Louis, and

one by the boards of directors of the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco. In such elections each board of directors shall have one vote; and the details of such elections may be governed by regulations prescribed by the committee, which may be amended from time to time. An alternate to serve in the absence of each such representative shall likewise be a president or first vice president of a Federal Reserve bank and shall be elected annually in the same manner. The meetings of said committee shall be held at Washington, District of Columbia, at least four times each year upon the call of the chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee.

[12 USC 263(a). As added by act of June 16, 1933 (48 Stat. 168); completely revised by act of Aug. 23, 1935 (49 Stat. 705); and further amended by act of July 7, 1942 (56 Stat. 647).]

**Participation of Reserve Banks; Regulations of Committee**
**(b)** No Federal Reserve bank shall engage or decline to engage in open-market operations under section 14 of this Act except in accordance with the direction of and regulations adopted by the Committee. The Committee shall consider, adopt, and transmit to the several Federal Reserve banks, regulations relating to the open-market transactions of such banks.

[12 USC 263(b). As added by act of June 16, 1933 (48 Stat. 168); and amended by act of Aug. 23, 1935 (49 Stat. 706).]

**Governing Principles**
**(c)** The time, character, and volume of all purchases and sales of paper described in section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

[12 USC 263(c). As added by act of June 16, 1933 (48 Stat. 168); and reenacted without change by act of Aug. 23, 1935 (49 Stat. 706).]

# Section 13A. Discount of Agricultural Paper *

**1. Authority of Federal Reserve Banks to Discount Agricultural Paper**
Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon live stock, and having a maturity, at the time of discount, exclusive of days of grace, not exceeding nine months, and such notes, drafts, and bills of exchange may be offered as collateral security for the issuance of Federal reserve notes under the provisions of section 16 of this Act: *Provided,* That notes, drafts, and bills of exchange with maturities in excess of six months shall not be eligible as a basis for the issuance of Federal reserve notes unless secured by warehouse receipts or other such negotiable documents conveying or securing title to readily marketable staple agricultural products or by chattel mortgage upon live stock which is being fattened for market.

[12 USC 348. As added by act of March 4, 1923 (42 Stat. 1479).]

**2. Rediscounts for, and Discount of Notes Payable to, Federal Intermediate Credit Banks**
That any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, rediscount such notes, drafts, and bills for any Federal Intermediate Credit Bank, except that no Federal reserve bank shall rediscount for a Federal Intermediate Credit Bank any such note or obligation which bears the indorsement of a nonmember State bank or trust company which is eligible for membership in the Federal reserve system, in accordance with section 9 of this Act. Any Federal reserve bank may also, subject to regulations and limitations to be prescribed by the Board of Governors of the Federal Reserve System, discount notes payable to and bearing the indorsement of any Federal intermediate credit bank, covering loans or advances made by such bank pursuant to the provisions of section 202(a) of Title II of the Federal Farm Loan Act, as amended (U.S.C., title 12, ch. 8, sec. 1031), which have maturities at the time of discount of not more than nine months, exclusive of days of grace, and which are secured by notes, drafts, or bills of exchange eligible for rediscount by Federal Reserve banks.

[12 USC 349. As added by act of March 4, 1923 (42 Stat. 1480); and amended by act of May 19, 1932 (47 Stat. 160).]

**3. Purchase and Sale of Debentures of Federal Intermediate Credit Banks**
Any Federal reserve bank may also buy and sell debentures and other such obligations issued by a Federal Intermediate Credit Bank or by a National Agricultural Credit Corporation, but only to the same extent as and subject to the same limitations as those upon which it may buy and sell bonds issued under Title I of the Federal Farm Loan Act.

[12 USC 350. As added by act of March 4, 1923 (42 Stat. 1480). The meaning of the term "debentures", as used above, was affected by act of Aug. 19, 1937 (50 Stat. 718), 12 USC 1040, which provides:

"The terms 'debenture' and 'debentures', when used in any Act of Congress, whenever enacted, except the Federal Farm Loan Act, relating to the purchase, sale, or use as security, of debentures issued by or for the benefit and account of any Federal intermediate credit bank or banks, shall be deemed to mean debentures issued by any such bank individually and consolidated debentures issued by such banks acting together."]

**4. Paper of Cooperative Marketing Associations**
Notes, drafts, bills of exchange or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products shall be deemed to have been issued or drawn for an agricultural purpose, within the meaning of this section, if the proceeds thereof have been or are to be advanced by such association to any members thereof for an agricultural purpose, or have been or are to be used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or if such proceeds have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members: *Provided,* That the express enumeration in this paragraph of certain classes of paper of cooperative marketing associations as eligible for rediscount shall not be construed as rendering ineligible any other class of paper of such associations which is now eligible for rediscount.

[12 USC 351. As added by act of March 4, 1923 (42 Stat. 1480).]

**5. Limitations**
The Board of Governors of the Federal Reserve System may, by regulation, limit to a percentage of the assets of a Federal reserve bank the amount of notes, drafts, acceptances, or bills having a maturity in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by such bank, and the amount of notes, drafts, bills, or acceptance having a maturity in excess of six months, but not exceeding nine months, which may be rediscounted by such bank.

[12 USC 352. As added by act of March 4, 1923 (42 Stat. 1480).]

* Previously section 13a, this section was redesignated by act of Dec. 19, 1991 (105 Stat. 2281).

# Section 14. Open Market Operations

**Purchase and Sale of Cable Transfers, Bank Acceptances and Bills of Exchange**
Any Federal reserve bank may, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, 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.

[12 USC 353. Part of original Federal Reserve Act; not amended.]

**Dealings in, and Loans on, Gold**
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;

[12 USC 354. Part of original Federal Reserve Act; not amended. See also 12 USC 5116 through 5118.]

**Purchase and Sale of Obligations of United States, States, Counties, etc., and of Foreign Governments (b)**

1. To buy and sell, at home or abroad, bonds and notes of the United States, bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and having maturities from date of purchase of not exceeding six months, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase 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, and obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof, such purchases to be made in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System. Notwithstanding any other provision of this chapter, any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to the principal and interest may be bought and sold without regard to maturities but only in the open market.
2. To buy and sell in the open market, under the direction and regulations of the Federal Open Market Committee, any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agency of the United States.

[12 USC 355. As amended by acts of Jan. 31, 1934 (48 Stat. 348); April 27, 1934 (48 Stat. 646); Aug. 23, 1935 (49 Stat. 706); March 27, 1942 (56 Stat. 180); April 28, 1947 (61 Stat. 56); June 30, 1950 (64 Stat. 307); June 23, 1952 (66 Stat. 154); June 29, 1954 (68 Stat. 329); June 25, 1956 (70 Stat. 339); June 30, 1958 (72 Stat. 261); July 1, 1960 (74 Stat. 295); Oct. 4, 1961 (75 Stat. 773); June 28, 1962 (76 Stat. 112); June 30, 1964 (78 Stat. 235); June 30, 1966 (80 Stat. 235); Sept. 21, 1966 (80 Stat. 825) (as amended by acts of Sept. 21, 1967 (81 Stat. 226) and Sept. 21, 1968 (82 Stat. 856); May 4, 1968 (82 Stat. 113); July 31, 1970 (84 Stat. 668); July 2, 1971 (85 Stat. 100); Aug. 14, 1973 (87 Stat. 314); Oct. 28, 1974 (88 Stat. 1505); Nov. 12, 1975 (89 Stat. 638); April 19, 1977 (91 Stat. 49); Oct. 12, 1977 (91 Stat. 1131); Nov. 7, 1977 (91 Stat. 1256); June 8, 1979 (93 Stat. 35); and March 31, 1980 (94 Stat. 140). See also 12 USC 2158 and 31 USC 5301. The "continental United States" is defined in paragraph 3 of section 1 of the Federal Reserve Act, so as to mean the "States of the United States and the District of Columbia."]

**Purchase and Sale of Bills of Exchange**
**(c)** To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

[12 USC 356. Part of original Federal Reserve Act; not amended.]

**Rates of Discount**
**(d)** To establish from time to time, subject to review and determination of the Board of Governors of the Federal Reserve System, 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; but each such bank shall establish such rates every fourteen days, or oftener if deemed necessary by the Board;

[12 USC 357. As amended by acts of April 13, 1920 (41 Stat. 550); March 4, 1923 (42 Stat. 1480); Aug. 23, 1935 (49 Stat. 706).]

**Foreign Correspondents and Agencies**
**(e)** To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Board of Governors of the Federal Reserve System and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed 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 (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Board of Governors of the Federal Reserve System, to open and maintain banking accounts for such foreign correspondents or agencies, or for foreign banks or bankers, or for foreign states as defined in section 25(b) of this Act. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Board of Governors of the Federal Reserve System, any other Federal reserve bank may, with the consent and approval of the Board of Governors of the Federal Reserve System, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board.

[12 USC 358. As amended by acts of Sept. 7, 1916 (39 Stat. 754); June 21, 1917 (40 Stat. 235); April 7, 1941 (55 Stat. 131).]

**Purchase and Sale of Acceptances of Federal Intermediate Credit Banks**
**(f)** To purchase and sell in the open market, either from or to domestic banks, firms, corporations, or individuals, acceptances of Federal Intermediate Credit Banks and of National Agricultural Credit Corporations, whenever the Board of Governors of the Federal Reserve System shall declare that the public interest so requires.

[12 USC 359. As added by act of March 4, 1923 (42 Stat. 1480).]

**Relationships and Transactions with Foreign Banks and Bankers**
**(g)** The Board of Governors of the Federal Reserve System shall exercise special supervision over all relationships and transactions of any kind entered into by any Federal reserve bank with any foreign bank or banker, or with any group of foreign banks or bankers, and all such relationships and transactions shall be subject to such regulations, conditions, and limitations as the Board may prescribe. No officer or other representative of any Federal reserve bank shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker without first obtaining the permission of the Board of Governors of the Federal Reserve System. The Board of Governors of the Federal Reserve System shall have the right, in its discretion, to be represented in any conference or negotiations by such representative or representatives as the Board may designate. A full report of all conferences or negotiations, and all understandings or agreements arrived at or transactions agreed upon, and all other material facts appertaining to such conferences or negotiations, shall be filed with the Board of Governors of the Federal Reserve System in writing by a duly authorized officer of each Federal reserve bank which shall have participated in such conferences or negotiations.

[12 USC 348a. As added by act of June 16, 1933 (48 Stat. 181).]

# Section 15. Government Deposits

### 1. Federal Reserve Banks as Depositaries and Fiscal Agents of United States

The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

[12 USC 391. As amended by the act of March 18, 1968 (82 Stat. 50). Also, in effect amended by act of May 29, 1920 (41 Stat. 654).

Reimbursement as fiscal agents is provided by 31 USC 3302(f) as follows:

"(f) When authorized by the Secretary, an official or agent of the Government having custody or possession of public money, or performing other fiscal agent services, may be allowed necessary expenses to collect, keep, transfer, and pay out public money and

to perform those services. However, money appropriated for those expenses may not be used to employ or pay officers and employees of the Government."]

### 2. Nonmember Banks as Depositaries of United States

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act: *Provided, however,* That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositaries.

[12 USC 392. Part of original Federal Reserve Act; not specifically amended, but amended in effect by the following statutes permitting the deposit of government funds in nonmember banks: Under section 10 of the act of June 11, 1942, all insured banks designated for the purpose by the Secretary of the Treasury may be depositaries of public moneys of the United States under the Liberty Bond Acts, the proceeds of sales of Liberty bonds may be deposited in nonmember banks; and under the Internal Revenue Code, the Secretary of the Treasury may authorize banks or trust companies to receive taxes. For designation of state member banks as depositaries of public money, see section 9 of the Federal Reserve Act; for designation of national banks as depositaries of public money, see section 5153 of the Revised Statutes. "Continental United States" means "the States of the United States and the District of Columbia." (Federal Reserve Act, section 1, third paragraph.) Presidential Proclamation No. 2695 of July 4, 1946 (60 Stat. 1352; 12 USC 1394 note) recognizes the independence of the Philippine Islands. Therefore the words "of the Philippine Islands or" have been omitted from the U.S. Code.]

### 3. Depositaries and Fiscal Agents of Institutions of the Farm Credit System

The Federal Reserve banks are authorized to act as depositaries for and fiscal agents of any Federal land bank, Federal intermediate credit bank, bank for cooperatives, or other institutions of the Farm Credit System.

[12 USC 393. As added by act of March 4, 1923 (42 Stat. 1480); and amended by act of Dec. 10, 1971 (85 Stat. 625).]

# Section 16. Note Issues

### 1. Issuance of Federal Reserve Notes; Nature of Obligation; Where Redeemable

Federal reserve notes, to be issued at the discretion of the Board of Governors of the Federal Reserve System for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank.

[12 USC 411. As amended by act of Jan. 30, 1934 (48 Stat. 337). For redemption of Federal reserve notes whose bank of issue cannot be identified, see act of June 13, 1933.]

### 2. Application for Notes by Federal Reserve Banks

Any Federal Reserve bank may make application to the local Federal Reserve agent for such amount of the Federal Reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal Reserve agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under section 10A, 10B, 13, or 13A of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold

certificates, or Special Drawing Right certificates, or any obligations which are direct obligations of, or are fully guaranteed as to principal and interest by, the United States or any agency thereof, or assets that Federal Reserve banks may purchase or hold under section 14 of this Act or any other asset of a Federal reserve bank. In no event shall such collateral security be less than the amount of Federal Reserve notes applied for. The Federal Reserve agent shall each day notify the Board of Governors of the Federal Reserve System of all issues and withdrawals of Federal Reserve notes to and by the Federal Reserve bank to which he is accredited. The said Board of Governors of the Federal Reserve System may at any time call upon a Federal Reserve bank for additional security to protect the Federal Reserve notes issued to it. Collateral shall not be required for Federal Reserve notes which are held in the vaults of, or are otherwise held by or on behalf of, Federal Reserve banks.

[12 USC 412. As amended by the acts of Sept. 7, 1916 (39 Stat. 754); June 21, 1917 (40 Stat. 236); Feb. 27, 1932 (47 Stat. 57); Feb. 3, 1933 (47 Stat. 794); Jan. 30, 1934 (48 Stat. 338); March 6, 1934 (48 Stat. 991); June 30, 1941 (55 Stat. 395); May 25, 1943 (57 Stat. 85); June 12, 1945 (59 Stat. 237); June 19, 1968 (82 Stat. 189); Nov. 10, 1978 (92 Stat. 3672); March 31, 1980 (94 Stat. 140); Dec. 6, 1999 (113 Stat. 1638); and Oct. 28, 2003 (117 Stat. 1193).]

### 3. Distinctive Letter on Notes; Destruction of Unfit Notes

Federal Reserve notes shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Board of Governors of the Federal Reserve System to each Federal Reserve bank. Federal Reserve notes unfit for circulation shall be canceled, destroyed, and accounted for under procedures prescribed and at locations designated by the Secretary of the Treasury. Upon destruction of such notes, credit with respect thereto shall be apportioned among the twelve Federal Reserve banks as determined by the Board of Governors of the Federal Reserve System.

[12 USC 413. As amended by acts of June 21, 1917 (40 Stat. 236); Jan. 30, 1934 (48 Stat. 338); June 12, 1945 (59 Stat. 237); July 19, 1954 (68 Stat. 495); March 3, 1965 (79 Stat. 5); May 20, 1966 (80 Stat. 161); and March 18, 1968 (82 Stat. 50).]

### 4. Granting Right to Issue Notes

The Board of Governors of the Federal Reserve System shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Board of Governors of the Federal Reserve System shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of the notes issued to it and shall pay such rate of interest as may be established by the Board of Governors of the Federal Reserve System on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section 18 of this Act upon security of United States 2 per centum Government bonds, become a first and paramount lien on all the assets of such bank.

[12 USC 414. As amended by acts of June 21, 1917 (40 Stat. 237); Jan. 30, 1934 (48 Stat. 338); June 12, 1945 (59 Stat. 237); and March 18, 1968 (82 Stat. 50).]

### 5. Deposit to Reduce Liability for Outstanding Notes

Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, Special Drawing Right certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue. The liability of a Federal Reserve bank with respect to its outstanding Federal Reserve notes shall be reduced by any amount paid by such bank to the Secretary of the Treasury under section 4 of the Old Series Currency Adjustment Act.

[12 USC 415. As reenacted by act of June 21, 1917 (40 Stat. 237); and as amended by acts of Jan. 30, 1934 (48 Stat. 339); June 30, 1961 (75 Stat. 147); March 18, 1968 (82 Stat. 50); and June 19, 1968 (82 Stat. 189). The act of June 30, 1961, is the Old Series Currency Adjustment Act.]

### 6. Substitution of Collateral; Retirement of Federal Reserve Notes

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes issued to it and shall at the same time substitute therefor other collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Board of Governors of the Federal Reserve System. Any Federal reserve bank may retire any of its Federal reserve notes by depositing them with the Federal reserve agent or with the Treasurer of the United States, and such Federal reserve bank shall thereupon be entitled to receive back the collateral deposited with the Federal reserve agent for the security of such notes. Any Federal Reserve bank shall further be entitled to receive back the collateral deposited with the Federal Reserve agent for the security of any notes with respect to which such bank has made payment to the Secretary of the Treasury under section 4 of the Old Series Currency Adjustment Act. Federal reserve notes so deposited shall not be reissued except upon compliance with the conditions of an original issue.

[12 USC 416. As amended by acts of June 21, 1917 (40 Stat. 237); June 30, 1961 (75 Stat. 147); and March 18, 1968 (82 Stat. 50). The act of June 30, 1961 is the Old Series Currency Adjustment Act.]

### 7. Custody of Reserve Notes, Gold Certificates, and Lawful Money

All Federal Reserve notes and all gold certificates, Special Drawing Right certificates, and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safekeeping of such Federal Reserve notes, gold certificates, Special Drawing Right certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates and Special Drawing Right certificates with the Board of Governors of the Federal Reserve System, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law.

[12 USC 417. As added by act of June 21, 1917 (40 Stat. 238); and amended by acts of Jan. 30, 1934 (48 Stat. 339) and June 19, 1968 (82 Stat. 189).]

### 8. Engraving of Plates; Denominations and Form of Notes

In order to furnish suitable notes for circulation as Federal reserve notes, the Secretary of the Treasury shall cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of $1, $2, $5, $10, $20, $50, $100, $500, $1,000 $5,000, $10,000 as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

[12 USC 418. As amended by acts of Sept. 26, 1918 (40 Stat. 970); June 4, 1963 (77 Stat. 54); and Sept. 23, 1994 (108 Stat. 2293).]

### 9. Custody of Unissued Notes

When such notes have been prepared, the notes shall be delivered to the Board of Governors of the Federal Reserve System subject to the order of the Secretary of the Treasury for the delivery of such notes in accordance with this Act.

[12 USC 419. As amended by acts of May 29, 1920 (41 Stat. 654) and Sept. 23, 1994 (108 Stat. 2293).]

### 10. Custody of Plates and Dies; Expenses of Issue and Retirement of Notes

The plates and dies to be procured by the Secretary of the Treasury for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Board of Governors of the Federal Reserve System shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

[12 USC 420. Part of original Federal Reserve Act; not amended.]

### 11. Examinations of Plates, Dies, Etc.

The Secretary of the Treasury may examine the plates, dies, bed pieces, and other material used in the printing of Federal Reserve notes and issue regulations relating to such examinations.

[12 USC 421. As amended by act of Sept. 23, 1994 (108 Stat. 2293).]

### 12. Appropriation for Engraving, Etc.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: *Provided, however*, That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

[Omitted from U.S. Code. Part of original Federal Reserve Act. This paragraph was in effect amended by subsection (a) of section 1 of the Permanent Appropriation Repeal Act of 1934, approved June 26, 1934 (48 Stat. 1224; 31 USC, 725), which provides: "That effective July 1, 1935, such portions of any acts as provide permanent or continuing appropriations from the general fund of the Treasury to be disbursed under the appropriation accounts appearing on the books of the Government, and listed in subsection (b) of this section, are hereby repealed, and any unobligated balances under such accounts as of June 30, 1935, shall be covered into the surplus fund of the Treasury." Among the appropriation accounts listed in subsection (b) is that for the preparation and issue of Federal reserve notes.]

### 13. Checks and Drafts to Be Received on Deposit at Par

Every Federal reserve bank shall receive on deposit at par from depository institutions or from Federal reserve banks checks and other items, including negotiable orders of withdrawal and share drafts and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and other items, including negotiable orders of withdrawal and share drafts and drafts drawn by any depositor in any other Federal reserve bank or depository institution upon funds to the credit of said depositor in said reserve bank or depository institution. Nothing herein contained shall be construed as prohibiting a depository institution from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Board of Governors of the Federal Reserve System shall, by rule, fix the charges to be collected by the depository institutions from its patrons whose checks and other items, including negotiable orders of withdrawal and share drafts are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

[12 USC 360. As amended by act of March 31, 1980 (94 Stat. 140).]

**14. Transfer of Funds Among Federal Reserve Banks**

The Board of Governors of the Federal Reserve System shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for depository institutions.

[12 USC 248-1. As amended by acts of Aug. 23, 1935 (49 Stat. 704) and March 31, 1980 (94 Stat. 140). Reclassified (previously 12 USC 248(o).]

**15. Gold Deposits and Gold Certificate Deposits**

The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates or of Special Drawing Right certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Board of Governors of the Federal Reserve System. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Board of Governors of the Federal Reserve System by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Board of Governors of the Federal Reserve System and deposits of gold or gold certificates shall be payable in gold certificates, and deposits of Special Drawing Right certificates shall be payable in Special Drawing Right certificates, on the order of the Board of Governors of the Federal Reserve System to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Board of Governors of the Federal Reserve System in making such payments shall be signed by the chairman or vice chairman, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

[12 USC 467. As added by act of June 21, 1917 (40 Stat. 238); and amended by acts of Jan. 30, 1934 (48 Stat. 339) and June 19, 1968 (82 Stat. 189). Prior to enactment of the Banking Act of 1935, approved Aug. 23, 1935, the chairman and vice chairman of the Board of Governors of the Federal Reserve System were known as the governor and vice governor of the Federal Reserve Board, respectively. See note to section 1.]

**16. Expenses**

The expenses necessarily incurred in carrying out these provisions, including the cost of the certificates or receipts issued for deposits received, and all expenses incident to the handling of such deposits shall be paid by the Board of Governors of the Federal Reserve System and included in its assessments against the several Federal reserve banks.

[12 USC 467. As added by act of June 21, 1917 (40 Stat. 238).]

**17. Preservation of Provisions of Act of March 14, 1900**

Nothing in this section shall be construed as amending section six of the Act of March fourteenth, nineteen hundred, as amended by the Acts of March fourth, nineteen hundred and seven, March second, nineteen hundred and eleven, and June twelfth, nineteen hundred and sixteen, nor shall the provisions of this section be construed to apply to the deposits made or to the receipts or certificates issued under those Acts.

[12 USC 467. As added by act of June 21, 1917 (40 Stat. 239).]

# Section 17. Deposit of Bonds by National Banks

**1. Repeal of Provisions Requiring National Banks to Deposit Bonds with United States Treasurer**
So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the Act of June twentieth, eighteen hundred and seventy-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds, and so much of those provisions or of any other provisions of existing statutes as require any national banking association now or hereafter organized to maintain a minimum deposit of such bonds with the Treasurer is hereby repealed.

[12 USC 101a note. As amended by act of June 21, 1917 (40 Stat. 239).]

# Section 18. Refunding Bonds

**1. Application to Sell Bonds Securing Circulation**
After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

[12 USC 441. Part of original Federal Reserve Act; not amended. On March 11, 1935, the Secretary of the Treasury called for redemption on July 1, 1935, and Aug. 1, 1935, respectively, the only bonds of the United States bearing the circulating privilege after July 22, 1935, namely the 2 percent Consols of 1930 and the 2 percent Panama Canal Loan bonds of 1916-36 and 1918-38.]

**2. Purchase of Bonds by Federal Reserve Banks**
The Treasurer shall, at the end of each quarterly period, furnish the Board of Governors of the Federal Reserve System with a list of such applications, and the Board of Governors of the Federal Reserve System may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Board of Governors of the Federal Reserve System may direct the purchase to be made: *Provided*, That Federal reserve banks shall not be permitted to purchase an amount to exceed $25,000,000 of such bonds in any one

year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank.

[12 USC 442. Part of original Federal Reserve Act; not amended.]

**3. Allotment of Bonds to Be Purchased**

*Provided further,* That the Board of Governors of the Federal Reserve System shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

[12 USC 413. As amended by acts of June 21, 1917 (40 Stat. 236); Jan. 30, 1934 (48 Stat. 338); June 12, 1945 (59 Stat. 237); July 19, 1954 (68 Stat. 495); March 3, 1965 (79 Stat. 5); May 20, 1966 (80 Stat. 161); and March 18, 1968 (82 Stat. 50).]

**4. Transfer and Payment**

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

[12 USC 443. Part of original Federal Reserve Act; not amended.]

**5. Federal Reserve Bank Notes**

The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulating notes equal to the par value of such bonds.

[12 USC 444. Part of original Federal Reserve Act; not amended.]

**6. Collateral for Notes; Form and Tenor; Redemption**

Upon the deposit with the Treasurer of the United States, (a) of any direct obligations of the United States or (b) of any notes, drafts, bills of exchange, or bankers' acceptances acquired under the provisions of this Act, any Federal reserve bank making such deposit in the manner prescribed by the Secretary of the Treasury shall be entitled to receive from the Secretary of the Treasury circulating notes in blank, duly registered and countersigned. When such circulating notes are issued against the security of obligations of the United States, the amount of such circulating notes shall be equal to the face value of the direct obligations of the United States so deposited as security; and, when issued against the security of notes, drafts, bills of exchange and bankers' acceptances acquired under the provisions of this Act, the amount thereof shall be equal to not more than 90 per cent of the estimated value of such notes, drafts, bills of exchange and bankers' acceptances so deposited as security. Such notes shall be the obligations of the Federal reserve bank procuring the same, shall be in form prescribed by the Secretary of the Treasury, shall be receivable at par in all parts of the United States for the same purposes as are national bank notes, and shall be redeemable in lawful money of the United States on presentation at the United States Treasury or at the bank of issue. The Secretary of the Treasury is authorized and empowered to prescribe regulations governing the issuance, redemption, replacement, retirement and destruction of such circulating notes and the release and substitution of security therefor. Such circulating notes shall be subject to the same tax as is provided by law for the circulating notes of national banks secured by 2 per cent bonds of the United States. No such circulating notes shall be issued under this paragraph after the President has declared by proclamation that the emergency recognized by the

President by proclamation of March 6, 1933, has terminated, unless such circulating notes are secured by deposits of bonds of the United States bearing the circulation privilege. When required to do so by the Secretary of the Treasury, each Federal reserve agent shall act as agent of the Treasurer of the United States or of the Secretary of the Treasury, or both, for the performance of any of the functions which the Treasurer or the Secretary of the Treasury may be called upon to perform in carrying out the provisions of this paragraph. Appropriations available for distinctive paper and printing United States currency or national bank currency are hereby made available for the production of the circulating notes of Federal reserve banks herein provided; but the United States shall be reimbursed by the Federal reserve bank to which such notes are issued for all expenses necessarily incurred in connection with the procuring of such notes and all other expenses incidental to their issue, redemption, replacement, retirement and destruction.

[Formerly 12 USC 445. As amended by acts of March 9, 1933 (48 Stat. 6); June 12, 1945 (59 Stat. 238); and Sept. 23, 1994 (108 Stat. 2293). This paragraph was in effect repealed by section 3 of the act of June 12, 1945, which provided:

"All power and authority with respect to the issuance of circulating notes, known as Federal Reserve bank notes, pursuant to the sixth paragraph of section 18 of the Federal Reserve Act, as amended by section 401 of the Act approved March 9, 1933 (48 Stat. 1, 6), shall cease and terminate on the date of enactment of this Act."

As to redemption of Federal Reserve bank notes when the bank of issue cannot be identified, see section 2 of the act of June 13, 1933 (12 USC 122a).]

**7. Exchange of 2 Percent Gold Bonds for One-Year Gold Notes and 30-Year 3 Percent Gold Bonds**

Upon application of any Federal reserve bank, approved by the Board of Governors of the Federal Reserve System, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds sotendered: *Provided*, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

[12 USC 446. Part of original Federal Reserve Act; not amended.]

**8. Issue of One-Year Treasury Notes and 30-Year 3 Percent Gold Bonds**

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

[12 USC 447. Part of original Federal Reserve Act; not amended.]

**9. Exchange of 3 Percent Bonds for One-Year Notes**
Upon application of any Federal reserve bank, approved by the Board of Governors of the Federal Reserve System, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes therein provided for.

[12 USC 448. Part of original Federal Reserve Act; not amended.]

# Section 19. Bank Reserves

**Definition of Terms**

**(a)** The Board is authorized for the purposes of this section to define the terms used in this section, to determine what shall be deemed a payment of interest, to determine what types of obligations, whether issued directly by a member bank or indirectly by an affiliate of a member bank or by other means, and, regardless of the use of the proceeds, shall be deemed a deposit, and to prescribe such regulations as it may deem necessary to effectuate the purposes of this section and to prevent evasions thereof.

[12 USC 461(a). As amended by acts of June 21, 1917 (40 Stat. 239) (which completely revised this section); Aug. 23, 1935 (49 Stat. 714); Sept. 21, 1966 (80 Stat. 823) (as amended by acts of Sept. 21, 1967 (81 Stat. 226) and Sept. 21, 1968 (82 Stat. 856)); Dec. 23, 1969 (83 Stat. 374); Oct. 29, 1974 (88 Stat. 1557); and March 31, 1980 (94 Stat. 133, 138). The amendment inserting the words "and, regardless of the use of the proceeds," made by the act of Oct. 29, 1974, "shall not apply to any bank holding company which has filed prior to the date of enactment of this Act an irrevocable declaration with the Board of Governors of the Federal Reserve System to divest itself of all of its banks under section 4 of the Bank Holding Company Act, or to any debt obligation which is an exempted security under section 3(a)(3) of the Securities Act of 1933" (12 USC 461 note).]

**Reserve Requirements**

**(b)**

1. *Definitions*. The following definitions and rules apply to this subsection, subsection (c), section 11A, the first paragraph of section 13, and the second, thirteenth, and fourteenth paragraphs of section 16:

A. The term "depository institution" means--

i. any insured bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

ii. any mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

iii. any savings bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

iv. any insured credit union as defined in section 101 of the Federal Credit Union Act or any credit union which is eligible to make application to become an insured credit union pursuant to section 201 of such Act;

v. any member as defined in section 2 of the Federal Home Loan Bank Act;

vi. any savings association (as defined in section 3 of the Federal Deposit Insurance Act) which is an insured depository institution (as defined in such Act) or is eligible to apply to become an insured depository institution under the Federal Deposit Insurance Act; and

vii. for the purpose of section 13 and the fourteenth paragraph of section 16, any association or entity which is wholly owned by or which consists only of institutions referred to in clauses (i) through (vi).

B. The term "bank" means any insured or non-insured bank, as defined in section 3 of the Federal Deposit Insurance Act, other than a mutual savings bank or a savings bank as defined in such section.

C. The term "transaction account" means a deposit or account on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone transfers, or other similar items for the purpose of making payments or transfers to third persons or others. Such term includes demand deposits, negotiable order of withdrawal accounts, savings deposits subject to automatic transfers, and share draft accounts.

D. The term "nonpersonal time deposits" means a transferable time deposit or account or a time deposit or account representing funds deposited to the credit of, or in which any beneficial interest is held by, a depositor who is not a natural person.

E. The term "reservable liabilities" means transaction accounts, nonpersonal time deposits, and all net balances, loans, assets, and obligations which are, or may be, subject to reserve requirements under paragraph (5).

F. In order to prevent evasions of the reserve requirements imposed by this subsection, after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the National Credit Union Administration Board, the Board of Governors of the Federal Reserve System is authorized to determine, by regulation or order, that an account or deposit is a transaction account if such account or deposit may be used to provide funds directly or indirectly for the purpose of making payments or transfers to third persons or others.

2. *Reserve requirements*.

A. Each depository institution shall maintain reserves against its transaction accounts as the Board may prescribe by regulation solely for the purpose of implementing monetary policy--

i. in the ratio of not greater than 3 percent (and which may be zero) for that portion of its total transaction accounts of $25,000,000 or less, subject to subparagraph (C); and

ii. in the ratio of 12 per centum, or in such other ratio as the Board may prescribe not greater than 14 per centum (and which may be zero), for that portion of its total transaction accounts in excess of $25,000,000, subject to subparagraph (C).

B. Each depository institution shall maintain reserves against its nonpersonal time deposits in the ratio of 3 per centum, or in such other ratio not greater than 9 per centum and not less than zero per centum as the Board may prescribe by regulation solely for the purpose of implementing monetary policy.

C. Beginning in 1981, not later than December 31 of each year the Board shall issue a regulation increasing for the next succeeding calendar year the dollar amount which is contained in subparagraph (A) or which was last determined pursuant to this subparagraph for the purpose of such subparagraph, by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage increase in the total transaction accounts of all depository institutions. The increase in such transaction accounts shall be determined by subtracting the amount of such accounts on June 30 of the preceding calendar year from the amount of such accounts on June 30 of the calendar year involved. In the case of any such 12-month period in which there has been a decrease in the total transaction accounts of all depository institutions, the Board shall issue such a regulation decreasing for the next succeeding calendar year such dollar amount by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage decrease in the total transaction accounts of all depository institutions. The decrease in such transaction accounts shall be determined by subtracting the amount of such accounts on June 30 of the calendar year involved from the amount of such accounts on June 30 of the previous calendar year.

D. Any reserve requirement imposed under this subsection shall be uniformly applied to all transaction accounts at all depository institutions. Reserve requirements imposed under this subsection shall be uniformly applied to nonpersonal time deposits at all depository institutions, except that such requirements may vary by the maturity of such deposits.

3. *Waiver of ratio limits in extraordinary circumstances*. Upon a finding by at least 5 members of the Board that extraordinary circumstances require such action, the Board, after consultation with the appropriate committees of the Congress, may impose, with respect to any liability of depository institutions, reserve requirements outside the limitations as to ratios and as to types of liabilities otherwise prescribed by paragraph (2) for a period not exceeding 180 days, and for further periods

not exceeding 180 days each by affirmative action by at least 5 members of the Board in each instance. The Board shall promptly transmit to the Congress a report of any exercise of its authority under this paragraph and the reasons for such exercise of authority.

4. *Supplemental reserves*.

A. The Board may, upon the affirmative vote of not less than 5 members, impose a supplemental reserve requirement on every depository institution of not more than 4 per centum of its total transaction accounts. Such supplemental reserve requirement may be imposed only if--

i. the sole purpose of such requirement is to increase the amount of reserves maintained to a level essential for the conduct of monetary policy;

ii. such requirement is not imposed for the purpose of reducing the cost burdens resulting from the imposition of the reserve requirements pursuant to paragraph (2);

iii. such requirement is not imposed for the purpose of increasing the amount of balances needed for clearing purposes; and

iv. on the date on which the supplemental reserve requirement is imposed, except as provided in paragraph (11), the total amount of reserves required pursuant to paragraph (2) is not less than the amount of reserves that would be required if the initial ratios specified in paragraph (2) were in effect.

B. The Board may require the supplemental reserve authorized under subparagraph (A) only after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the National Credit Union Administration Board. The Board shall promptly transmit to the Congress a report with respect to any exercise of its authority to require supplemental reserves under subparagraph (A) and such report shall state the basis for the determination to exercise such authority.

C. If a supplemental reserve under subparagraph (A) has been required of depository institutions for a period of one year or more, the Board shall review and determine the need for continued maintenance of supplemental reserves and shall transmit annual reports to the Congress regarding the need, if any, for continuing the supplemental reserve.

D. Any supplemental reserve imposed under subparagraph (A) shall terminate at the close of the first 90-day period after such requirement is imposed during which the average amount of reserves required under paragraph (2) are less than the amount of reserves which would be required during such period if the initial ratios specified in paragraph (2) were in effect.

5. *Reserves related to foreign obligations or assets*. Foreign branches, subsidiaries, and international banking facilities of nonmember depository institutions shall maintain reserves to the same extent required by the Board of foreign branches, subsidiaries, and international banking facilities of member banks. In addition to any reserves otherwise required to be maintained pursuant to this subsection, any depository institution shall maintain reserves in such ratios as the Board may prescribe against--

A. net balances owed by domestic offices of such depository institution in the United States to its directly related foreign offices and to foreign offices of non-related depository institutions;

B. loans to United States residents made by overseas offices of such depository institution if such depository institution has one or more offices in the United States; and

C. assets (including participations) held by foreign offices of a depository institution in the United States which were acquired from its domestic offices.

6. *Exemption for certain deposits*. The requirements imposed under paragraph (2) shall not apply to deposits payable only outside the States of the United States and the District of Columbia, except that nothing in this subsection limits the authority of the Board to impose conditions and requirements on member banks under section 25 of this Act or the authority of the Board under section 7 of the International Banking Act of 1978 (12 U.S.C. 3105).

7. *Discount and borrowing*. Any depository institution in which transaction accounts or nonpersonal time deposits are held shall be entitled to the same discount and borrowing privileges as member banks. In the administration of discount and borrowing privileges, the Board and the Federal Reserve banks shall take into consideration the special needs of savings and other depository institutions for access to discount and borrowing facilities consistent with their long-term asset portfolios and the sensitivity of such institutions to trends in the national money markets.

8. *Transitional adjustments*.

A. Any depository institution required to maintain reserves under this subsection which was engaged in business on July 1, 1979, but was not a member of the Federal Reserve System on or after that date, shall maintain reserves against its deposits during the first twelve-month period following the effective date of this paragraph in amounts equal to one-eighth of those otherwise required by this subsection, during the second such twelve-month period in amounts equal to one-fourth of those otherwise required, during the third such twelve-month period in amounts equal to three-eighths of those otherwise required, during the fourth twelve-month period in amounts equal to one-half of those otherwise required, and during the fifth twelve-month period in amounts equal to five-eighths of those otherwise required, during the sixth twelve-month period in amounts equal to three-fourths of those otherwise required, and during the seventh twelve-month period in amounts equal to seven-eighths of those otherwise required. This subparagraph does not apply to any category of deposits or accounts which are first authorized pursuant to Federal law in any State after April 1, 1980.

B. With respect to any bank which was a member of the Federal Reserve System during the entire period beginning on July 1, 1979, and ending on the effective date of the Monetary Control Act of 1980, the amount of required reserves imposed pursuant to this subsection on and after the effective date of such Act that exceeds the amount of reserves which would have been required of such bank if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied may, at the discretion of the Board and in accordance with such rules and regulations as it may adopt, be reduced by 75 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 25 per centum during the third year.

C.

i. With respect to any bank which is a member of the Federal Reserve System on the effective date of the Monetary Control Act of 1980, the amount of reserves which would have been required of such bank if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied that exceeds the amount of required reserves imposed pursuant to this subsection shall, in accordance with such rules and regulations as the Board may adopt, be reduced by 25 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 75 per centum during the third year.

ii. If a bank becomes a member bank during the four-year period beginning on the effective date of the Monetary Control Act of 1980, and if the amount of reserves which would have been required of such bank, determined as if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied, and as if such bank had been a member during such period, exceeds the amount of reserves required pursuant to this subsection, the amount of reserves required to be maintained by such bank beginning on the date on which such bank becomes a member of the Federal Reserve System shall be the amount of reserves which would have been required of such bank if it had been a member on the day before such effective date, except that the amount of such excess shall, in accordance with such rules and regulations as the Board may adopt, be reduced by 25 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 75 per centum during the third year.

D.

i. Any bank which was a member bank on July 1, 1979, and which withdraws from membership in the Federal Reserve System during the period beginning on July 1, 1979, and ending on March 31, 1980, shall maintain reserves during the first twelve-month period beginning on the date of enactment of this clause in amounts equal to one-half of those otherwise required by this subsection, during the second such twelve-month period in amounts equal to two-thirds of those otherwise required, and during the third such twelve-month period in amounts equal to five-sixths of those otherwise required.

ii. Any bank which withdraws from membership in the Federal Reserve System on or after the date of enactment of the Depository Institutions Deregulation and Monetary Control Act of 1980 shall maintain reserves in the same amount as member banks are required to maintain under this subsection, pursuant to subparagraphs (B) and (C)(i).

E. This subparagraph applies to any depository institution that, on August 1, 1978, (i) was engaged in business as a depository institution in a State outside the continental limits of the United States, and (ii) was not a member of the Federal Reserve System at any time on or after such date. Such a depository institution shall not be required to maintain reserves against its deposits held or maintained at its offices located in a State outside the continental limits of the United States until the first day of the sixth calendar year which begins after the effective date of the Monetary Control Act of 1980. Such a depository institution shall maintain reserves against its deposits during the sixth calendar year which begins after such effective date in an amount equal to one-eighth of that otherwise required by paragraph (2), during the seventh such year in an amount equal to one-fourth of that otherwise required, during the eighth such year in an amount equal to three-eighths of that otherwise required, during the ninth such year in an amount equal to one-half of that otherwise required, during the tenth such year in an amount equal to five-eighths of that otherwise required, during the eleventh such year in an amount equal to three-fourths of that otherwise required, and during the twelfth such year in an amount equal to seven-eighths of that otherwise required.

9. *Exemption*. This subsection shall not apply with respect to any financial institution which--

A. is organized solely to do business with other financial institutions;

B. is owned primarily by the financial institutions with which it does business; and

C. does not do business with the general public.

10. *Waivers*. In individual cases, where a Federal supervisory authority waives a liquidity requirement, or waives the penalty for failing to satisfy a liquidity requirement, the Board shall waive the reserve requirement, or waive the penalty for failing to satisfy a reserve requirement, imposed pursuant to this subsection for the depository institution involved when requested by the Federal supervisory authority involved.

11. *Additional exemptions*.

A.

i. Notwithstanding the reserve requirement ratios established under paragraphs (2) and (5) of this subsection, a reserve ratio of zero per centum shall apply to any combination of reservable liabilities, which do not exceed $2,000,000 (as adjusted under subparagraph (B)), of each depository institution.

ii. Each depository institution may designate, in accordance with such rules and regulations as the Board shall prescribe, the types and amounts of reservable liabilities to which the reserve ratio of zero per centum shall apply, except that transaction accounts which are designated to be subject to a reserve ratio of zero per centum shall be accounts which would otherwise be subject to a reserve ratio of 3 per centum under paragraph (2).

iii. The Board shall minimize the reporting necessary to determine whether depository institutions have total reservable liabilities of less than $2,000,000 (as adjusted under subparagraph (B)). Consistent with the Board's responsibility to monitor and control monetary and credit aggregates, depository institutions which have reserve requirements under this subsection equal to zero per centum shall be subject to less overall reporting requirements than depository institutions which have a reserve requirement under this subsection that exceeds zero per centum.

B.

i. Beginning in 1982, not later than December 31 of each year, the Board shall issue a regulation increasing for the next succeeding calendar year the dollar amount specified in subparagraph (A), as previously adjusted under this subparagraph, by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage increase in the total reservable liabilities of all depository institutions.

ii. The increase in total reservable liabilities shall be determined by subtracting the amount of total reservable liabilities on June 30 of the preceding calendar year from the amount of total reservable liabilities on June 30 of the calendar year involved. In the case of any such twelve-month period in which there has been a decrease in the total reservable liabilities of all depository institutions, no adjustment shall be made. A decrease in total reservable liabilities shall be determined by substracting the amount of total reservable liabilities on June 30 of the calendar year involved from the amount of total reservable liabilities on June 30 of the previous calendar year.

12. *Earnings on balances*.

A. Balances maintained at a Federal Reserve bank by or on behalf of a depository institution may receive earnings to be paid by the Federal Reserve bank at least once each calendar quarter, at a rate or rates not to exceed the general level of short-term interest rates.

B. The Board may prescribe regulations concerning--

i. the payment of earnings in accordance with this paragraph;

ii. the distribution of such earnings to the depository institutions which maintain balances at such banks, or on whose behalf such balances are maintained; and

iii. the responsibilities of depository institutions, Federal Home Loan Banks, and the National Credit Union Administration Central Liquidity Facility with respect to the crediting and distribution of earnings attributable to balances maintained, in accordance with subsection (c)(l)(A), in a Federal Reserve bank by any such entity on behalf of depository institutions.

C. For purposes of this paragraph, the term "depository institution", in addition to the institutions described in paragraph (l)(A), includes any trust company, corporation organized under section 25A or having an agreement with the Board under section 25, or any branch or agency of a foreign bank (as defined in section l(b) of the International Banking Act of 1978).

[12 USC 461(b). As amended by acts of June 21, 1917 (40 Stat. 239); Sept. 26, 1918 (40 Stat. 970); May 12, 1933 (48 Stat. 54); Aug. 23, 1935 (49 Stat. 706); July 7, 1942 (56 Stat. 648); July 28, 1959 (73 Stat. 264) effective July 28, 1962; Sept. 21, 1966 (80 Stat. 823) (as amended by acts of Sept. 21, 1967 (81 Stat. 226) and Sept. 21, 1968 (82 Stat. 856)); Dec. 23, 1969 (83 Stat. 375); March 31, 1980 (94 Stat. 133, 138); Aug. 13, 1981 (95 Stat. 433); Oct. 15, 1982 (96 Stat. 1520, 1521); Aug. 9, 1989 (103 Stat. 439); Oct. 13, 2006 (120 Stat. 1968, 1969); and July 21, 2010 (124 Stat. 1556). Amendments to subsection 19(b) act of October 13, 2006, were to be effective on October 1, 2011, but Sec. 128 of the act of October 3, 2008 (122 Stat. 3796) accelerated the effective date to October 1, 2008.]

13.

**Promulgation of Rules and Regulations Regarding Maintenance of Balances**

**(c)**

1. Reserves held by a depository institution to meet the requirements imposed pursuant to subsection (b) shall, subject to such rules and regulations as the Board shall prescribe, be in the form of--

A. balances maintained for such purposes by such depository institution in the Federal Reserve bank of which it is a member or at which it maintains an account, except that (i) the Board may, by regulation or order, permit depository institutions to maintain all or a portion of their required reserves in the form of vault cash, except that any portion so permitted shall be identical for all depository institutions, and (ii) vault cash may be used to satisfy any supplemental reserve requirement imposed pursuant to subsection (b)(4), except that all such vault cash shall be excluded from any computation of earnings pursuant to subsection (b); and

B. balances maintained by a depository institution in a depository institution which maintains required reserve balances at a Federal Reserve bank, in a Federal Home Loan Bank, or in the National Credit Union Administration Central Liquidity Facility, if such depository institution, Federal Home Loan Bank, or National Credit Union Administration Central Liquidity Facility maintains such funds in the form of balances in a Federal Reserve bank of which it is a member or at which it maintains an account. Balances received by a depository institution from a second depository institution and used to satisfy the reserve requirement imposed on such second depository institution by this section shall not be subject to the reserve requirements of this section imposed on such first

depository institution, and shall not be subject to assessments or reserves imposed on such first depository institution pursuant to section 7 of the Federal Deposit Insurance Act (12 U.S.C. 1817), section 404 of the National Housing Act (12 U.S.C. 1727), or section 202 of the Federal Credit Union Act (12 U.S.C. 1782).

C. The balances maintained to meet the reserve requirements of subsection (b) by a depository institution in a Federal Reserve bank or passed through a Federal Home Loan Bank or the National Credit Union Administration Central Liquidity Facility or another depository institution to a Federal Reserve bank may be used to satisfy liquidity requirements which may be imposed under other provisions of Federal or State law.

[12 USC 461(c). As amended by acts of Aug. 15, 1914 (38 Stat. 691); June 21, 1917 (40 Stat. 239); July 28, 1959 (73 Stat. 263); Sept. 21, 1966 (80 Stat. 823) (as amended by acts of Sept. 21, 1967 (81 Stat. 226) and Sept. 21, 1968 (82 Stat. 856)); Dec. 23, 1969 (83 Stat. 375); March 31, 1980 (94 Stat. 133, 138); Oct 13, 2006 (120 Stat. 1969, 1980).]

**Member Banks Making Security Loans for Others**

**(d)** No member bank shall act as the medium or agent of any nonbanking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in stocks, bonds, and other investment securities. Every violation of this provision by any member bank shall be punishable by a fine of not more than $100 per day during the continuance of such violation; and such fine may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located.

[12 USC 374a. As added by act of June 16, 1933 (48 Stat. 181) and amended by act of Sept. 21, 1966 (80 Stat. 824) (as amended by acts of Sept. 21, 1967 (81 Stat. 226) and Sept. 21, 1968 (82 Stat. 856)).]

**Deposits with Depository Institutions Without Access to Federal Reserve Advances; Discounts for Nonmember Banks**

**(e)** No member bank shall keep on deposit with any depository institution which is not authorized to have access to Federal Reserve advances under section 10(b) of this Act a sum in excess of 10 per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Board of Governors of the Federal Reserve System.

[12 USC 463, 374. As reenacted without change by act of Aug. 15, 1914 (38 Stat. 692); and amended by acts of June 21, 1917 (40 Stat. 239) (which completely revised this section) and Sept. 21, 1966 (80 Stat. 824) (as amended by acts of Sept. 21, 1967 (81 Stat. 226); Sept. 21, 1968 (82 Stat. 856); and March 31, 1980 (94 Stat. 140).]

**Checking Against and Withdrawal of Reserve Balance**

**(f)** The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Board of Governors of the Federal Reserve System, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities.

[12 USC 464. As reenacted without change by act of Aug. 15, 1914 (38 Stat. 692); as amended by acts of June 21, 1917 (40 Stat. 239) (which completely revised this section July 7, 1942 (56 Stat. 648)); and Sept. 21, 1966 (80 Stat. 824) (as amended by acts of Sept. 21, 1967 (81 Stat. 226) and Sept. 21, 1968 (82 Stat. 856)).]

### Deductions in Computing Reserves

**(g)** In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System.

[12 USC 465. As amended by acts of Aug. 15, 1914 (38 Stat. 692); June 21, 1917 (40 Stat. 240) (which completely revised this section); Aug. 23, 1935 (49 Stat. 714); and Sept. 21, 1966 (80 Stat. 824) (as amended by acts of Sept. 21, 1967 (81 Stat. 226) and Sept. 21, 1968 (82 Stat. 856)).]

### Reserves of Banks in Dependencies and Insular Possessions

**(h)** National banks, or banks organized under local laws, located in the dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Board of Governors of the Federal Reserve System, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act.

[12 USC 466. As reenacted without change by act of Aug. 15, 1914 (38 Stat. 692); and as amended by acts of June 21, 1917 (40 Stat. 240); June 25, 1959 (73 Stat. 142) and Sept. 21, 1966 (80 Stat. 824) (as amended by acts of Sept. 21, 1967 (81 Stat. 226) and Sept. 21, 1968 (82 Stat. 856)). The "continental United States" is defined in the third paragraph of section 1 of the Federal Reserve Act to mean the "States of the United States and the District of Columbia."]

### Interest on Demand Deposits

[Subsection (i) (12 USC 371a) was repealed by act of July 21, 2010 (124 Stat. 1640)].

### Advertisement of Interest on Time and Savings Deposits

**(j)** The Board may from time to time, after consulting with the Board of Directors of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, prescribe rules governing the advertisement of interest on deposits by member banks on time and savings deposits. The provisions of this paragraph shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia. During the period commencing on October 15, 1962, and ending on October 15, 1968, the provisions of this paragraph shall not apply to the rate of interest which may be paid by member banks on time deposits of foreign governments, monetary and financial authorities of foreign governments when acting as such, or international financial institutions of which the United States is a member.

[12 USC 371b. As added by act of June 16, 1933 (48 Stat. 182). Amended by acts of Aug. 23, 1935 (49 Stat. 714); Oct. 15, 1962 (76 Stat. 953); July 21, 1965 (79 Stat. 244); Sept. 21, 1966 (80 Stat. 824) (as amended by acts of Sept. 21, 1967 (81 Stat. 226) and Sept. 21, 1968 (82 Stat. 856), Joint Resolution of Sept. 22, 1969 (83 Stat. 115); Act of Dec. 23, 1969 (83 Stat. 371); Joint Resolution of March 31, 1971 (85 Stat. 13); and act of May 18, 1971 (85 Stat. 38)); Sept. 21, 1968 (82 Stat. 856); July 6, 1973 (87 Stat. 147); Aug. 16, 1973 (87 Stat. 342); Oct. 28, 1974 (88 Stat. 1505), Dec. 31, 1975 (89 Stat. 1124); April 19, 1977 (91 Stat. 49); and Nov. 16, 1977 (91 Stat. 1387).]

### Applicability of State Usury Ceilings to Certain Obligations Issued by Bank and Affiliates

[Subsection (k) (12 USC 371b-1) was repealed by act of March 31, 1980 (94 Stat. 168).]

**Civil Money Penalty**

**(l)**

1. Any member bank which, and any institution-affiliated party (within the meaning of section 3(u) of the Federal Deposit Insurance Act) with respect to such member bank who, violates any provision of this section, or any regulation issued pursuant thereto, shall forfeit and pay a civil penalty of not more than $5,000 for each day during which such violation continues.
2. Notwithstanding paragraph (1), any member bank which, and any institution-affiliated party (within the meaning of section 3(u) of the Federal Deposit Insurance Act) with respect to such member bank who--

A.
i. commits any violation described in paragraph (1);
ii. recklessly engages in an unsafe or unsound practice in conducting the affairs of such member bank; or
iii. breaches any fiduciary duty;

B. which violation, practice, or breach--
i. is part of a pattern of misconduct;
ii. causes or is likely to cause more than a minimal loss to such member bank; or
iii. results in pecuniary gain or other benefit to such party,

shall forfeit and pay a civil penalty of not more than $25,000 for each day during which such violation, practice, or breach continues.

3. Notwithstanding paragraphs (1) and (2), any member bank which, and any institution-affiliated party (within the meaning of section 3(u) of the Federal Deposit Insurance Act) with respect to such member bank who--

A. knowingly--
i. commits any violation described in paragraph (1);
ii. engages in any unsafe or unsound practice in conducting the affairs of such member bank; or
iii. breaches any fiduciary duty; and

B. knowingly or recklessly causes a substantial loss to such member bank or a substantial pecuniary gain or other benefit to such party by reason of such violation, practice, or breach,

shall forfeit and pay a civil penalty in an amount not to exceed the applicable maximum amount determined under paragraph (4) for each day during which such violation, practice, or breach continues.

4. The maximum daily amount of any civil penalty which may be assessed pursuant to paragraph (3) for any violation, practice, or breach described in such paragraph is--

A. in the case of any person other than a member bank, an amount not to exceed $1,000,000; and
B. in the case of a member bank, an amount not to exceed the lesser of --
i. $1,000,000; or
ii. 1 percent of the total assets of such member bank.

5. Any penalty imposed under paragraph (1), (2), or (3) may be assessed and collected by the Board in the manner provided in subparagraphs (E), (F), (G), and (I) of section 8(i)(2) of the Federal Deposit Insurance Act for penalties imposed (under such section) and any such assessment shall be subject to the provisions of such section.
6. The member bank or other person against whom any penalty is assessed under this subsection shall be afforded an agency hearing if such member bank or person submits a request for such hearing within 20 days after the issuance of the notice of assessment. Section 8(h) of the Federal Deposit Insurance Act shall apply to any proceeding under this subsection.
7. All penalties collected under authority of this subsection shall be deposited into the Treasury.

8. For purposes of this section, the term "violate" includes any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling, or aiding or abetting a violation.
9. The Board shall prescribe regulations establishing such procedures as may be necessary to carry out this subsection.

[12 USC 505, as added by act of Nov. 10, 1978 (92 Stat. 3642) and amended by acts of Oct. 15, 1982 (96 Stat. 1522, 1523) and Aug. 9, 1989 (103 Stat. 472).]

**Notice Under This Section After Separation from Service**

**(m)** The resignation, termination of employment or participation, or separation of an institution-affiliated party (within the meaning of section 3(u) of the Federal Deposit Insurance Act) with respect to a member bank (including a separation caused by the closing of such a bank) shall not affect the jurisdiction and authority of the Board to issue any notice and proceed under this section against any such party, if such notice is served before the end of the 6-year period beginning on the date such party ceased to be such a party with respect to such bank (whether such date occurs before, on, or after the date of the enactment of this subsection).

[12 USC 505. As added by act of Aug. 9, 1989 (103 Stat. 461).]