

FEDERAL RESERVE BANK  
OF NEW YORK

*Investment Department*

[ Circular No. 521 ]  
[ January 5, 1923 ]

**Bankers Acceptances**

**FEDERAL RESERVE BOARD REGULATION B SERIES OF 1922**

Superseding Regulation B of 1921

*To each Bank, Trust Company and Other Accepting Banker  
in the Second Federal Reserve District :*

You will find enclosed the Federal Reserve Board's new regulation which makes eligible for purchase by Federal Reserve Banks, in the open market, bankers acceptances with maturities up to six months which are drawn by growers or by cooperative marketing associations to finance the orderly marketing of non-perishable, readily marketable, staple agricultural products when secured by warehouse receipts covering such products.

We desire to call your particular attention to the Board's letter of December 19, 1922, which accompanies the regulation and states the reasons for issuing it.

The new regulation supersedes Regulation B of 1921 and should be inserted at page 8 of the Federal Reserve Board Regulations, Series of 1920.

Very truly yours,

BENJ. STRONG,  
*Governor*

**OPEN MARKET PURCHASES OF BILLS OF EXCHANGE, TRADE ACCEPTANCES,  
AND BANKERS' ACCEPTANCES UNDER SECTION 14.**

**I. GENERAL STATUTORY PROVISIONS.**

Section 14 of the Federal Reserve Act provides that Federal Reserve Banks under rules and regulations to be prescribed by the Federal Reserve Board may purchase and sell in the open market, at home or abroad, from or to domestic or foreign banks, firms, corporations, or individuals, bankers' acceptances, and bills of exchange of the kinds and maturities made eligible by the act for rediscount, with or without the indorsement of a member bank.

**II. GENERAL CHARACTER OF BILLS AND ACCEPTANCES ELIGIBLE.**

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, has determined that a bill of exchange or acceptance, to be eligible for purchase by Federal Reserve Banks under this provision of section 14, must have been accepted by the drawee prior to such purchase unless it is either accompanied or secured by shipping documents or by warehouse, terminal, or other similar receipt conveying security title or bears a satisfactory banking indorsement, and must conform to the relative requirements of Regulation A, except that—

(a) A banker's acceptance growing out of a transaction involving the importation or exportation of goods may be purchased if it has a maturity not in excess of six months, exclusive of days of grace, provided that it conforms in other respects to the relative requirements of Regulation A;

(b) A banker's acceptance growing out of a transaction involving the storage within the United States of goods actually under contract for sale and not yet delivered or paid for may be purchased, provided that the acceptor is secured by the pledge of such goods; and provided further, that the acceptance conforms in other respects to the relative requirements of Regulation A; and

(c) A banker's acceptance drawn by a grower, or by a cooperative marketing association composed exclusively of growers, of nonperishable, readily marketable, staple agricultural products, to finance the orderly marketing of such products grown by such grower or growers and secured at the time of acceptance by a warehouse, terminal, or other similar receipt, issued by a party independent of the borrower and conveying security title to such products, may be purchased if it has a maturity at the time of purchase not in excess of six months, exclusive of days of grace; provided, that the acceptor remains secured throughout the life of the acceptance, and that the acceptance conforms in other respects to the relevant requirements of Regulation A.

**III. STATEMENTS.**

A bill of exchange, unless indorsed by a member bank, is not eligible for purchase until a satisfactory statement has been furnished of the financial condition of one or more of the parties thereto.

A banker's acceptance, unless accepted or indorsed by a member bank, is not eligible for purchase until the acceptor has furnished a satisfactory statement of its financial condition in form to be approved by the Federal Reserve Bank and has agreed in writing with a Federal Reserve Bank to inform it upon request concerning the transaction underlying the acceptance.

OPEN MARKET PURCHASES OF BILLS OF EXCHANGE, TRADE ACCEPTANCES,  
AND BANKERS' ACCEPTANCES UNDER SECTION 14

**FEDERAL RESERVE BOARD.**

WASHINGTON, December 19, 1922.

The Federal Reserve Board transmits herewith its Regulation B, Series of 1922, superseding Regulation B, Series of 1921, relating to open-market purchases by Federal Reserve Banks of bills of exchange, trade acceptances, and bankers' acceptances under section 14 of the Federal Reserve Act.

This new regulation is issued for the purpose of permitting Federal Reserve Banks until further notice to purchase in the open market, with or without the indorsement of member banks, bankers' acceptances with maturities not in excess of six months which are drawn by growers, or by cooperative marketing associations composed exclusively of growers, of non-perishable, readily marketable, staple agricultural products, to finance the orderly marketing of such products grown by such growers and secured at the time of acceptance by warehouse, terminal, or other similar receipts issued by parties independent of the borrowers and conveying security title to such products. This purpose is effected by the addition of a new paragraph at the end of Part II of said regulation, and the addition of this paragraph constitutes the only amendment to the regulation.

The Board was moved to take this action by a desire to provide more ample facilities for financing the orderly marketing of staple agricultural products, especially by cooperative marketing associations. This is in accordance with the principle heretofore recognized by the Board that the carrying of agricultural products for such periods as are reasonably necessary in order to assist the orderly marketing thereof is a proper step in the process of distribution. There is a material distinction, however, between carrying agricultural products for such periods as are reasonably necessary to effect orderly marketing, and mere speculative withholding from the market in the hope ultimately of obtaining a higher price. Before purchasing such acceptances, therefore, Federal Reserve Banks should assure themselves that the agricultural products underlying the transaction are not being held for speculation but are being marketed in an orderly manner or stored as part of the process of orderly marketing. Care should also be exercised by Federal Reserve Banks in purchasing acceptances of long maturities, in order that the liquidity of the aggregate investments held by them should not be affected.

By order of the Federal Reserve Board.

WM. W. HOXTON, *Secretary.*

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