

**FEDERAL RESERVE BANK  
OF DALLAS**

Dallas, Texas, June 20, 1928.

**BILL OF LADING DRAFTS PAYABLE AT SIGHT OR ON DEMAND**

**Amendment to Section 13 of the Federal Reserve Act broadening the eligibility of Bills of Exchange drawn payable at sight or on demand.**

**To the Member Bank Addressed:**

This circular supersedes all previous circulars governing the discount or purchase of bill of lading drafts. It is issued primarily for the purpose of acquainting our member banks with a recent amendment to Section 13 of the Federal Reserve Act, broadening the eligibility of bills of exchange payable at sight or on demand secured by bills of lading or other shipping documents.

The term "Federal Reserve Bank of Dallas" as used herein, includes its El Paso, Houston and San Antonio Branches.

**Eligibility**

For your information, we quote below the third paragraph of Section 13 of the Federal Reserve Act as amended:

"Upon the endorsement 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, and subject to regulations and limitations to be prescribed by the Federal Reserve Board, any Federal reserve bank may discount or purchase bills of exchange payable at sight or on demand which grow out of the domestic shipment or the exportation of nonperishable, readily marketable agricultural and other staples and are secured by bills of lading or other shipping documents conveying or securing title to such staples: Provided, That all such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination: Provided, further, That no such bill shall in any event be held by or for the account of a Federal reserve bank for a period in excess of ninety days. In discounting such bills Federal reserve banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the discount after payment of such bills to conform to the actual life thereof."

Prior to this amendment Section 13 provided that Federal reserve banks might discount or purchase bills of exchange payable at sight or on demand, drawn to finance the "domestic shipment of nonperishable, readily marketable staple agricultural products," when secured by bills of lading or other shipping documents conveying or securing title thereto. It will be observed that the language of the above quoted amendment embraces exportation, as well as domestic shipment and, furthermore, that the security is not restricted to "nonperishable, readily marketable staple agricultural products," but also includes other nonperishable, readily marketable staples.

The effect of this amendment is readily apparent and should result in an increased use of the facilities of this bank for the discount or purchase of sight and demand drafts.

**Method of Handling**

Pursuant to the foregoing, drafts of the kind mentioned above which meet the requirements of eligibility, and which are acceptable from a credit standpoint, will be discounted or purchased under the following terms and conditions:

# BILL OF LADING DRAFTS

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TO THE FEDERAL RESERVE BANK OF DALLAS:

Subject to terms and conditions of your Circular No. 7, dated June 20, 1928, we offer herewith for discount or purchase under our endorsement, and credit to our reserve account, bill of lading drafts as listed below.

..... Bank of .....  
(Name of Bank) (Location)

.....  
 President  
 Cashier.

.....  
(Sign here)

(List each item separately)

Drawn On: (Show Name and Address)	Drawer's Name and Address	Drawer's Net Worth	Drawer's Total Liability, Including Items Offered		*P	Amount
			Direct	Indirect		
				<b>Total,</b>		

\*Protest instructions may be entered in column provided—  
 "P" indicating that drafts are to be sent protest, and  
 "N" indicating that they are to be sent no protest.

Drafts must be endorsed by the member bank over manual signature of an authorized officer, and must be listed on special application blank (Form L & D 62) a copy of which is hereto attached. A supply of these forms will be furnished upon request. (Kindly give estimate of needs when ordering.)

Drafts must have attached negotiable shipper's order bills of lading or other shipping documents and be accompanied by instructions to surrender documents only upon payment.

Unless otherwise advised, member banks will be credited with face amount of drafts accepted, subject to final payment, and interest will be charged at current rate of discount to date actually collected funds are received by the Federal Reserve Bank of Dallas. Where collection is made through another Federal reserve bank or branch, interest will be charged to the date that this bank receives final credit.

All drafts accepted by the Federal Reserve Bank of Dallas are taken upon the express condition that it may use its discretion as to whom they shall be sent for collection, acting in each case at the risk of the bank from which purchased, and the Federal Reserve Bank of Dallas shall not be liable for acts or omissions of any other banks or collectors, but only for due diligence and care on its part in making collection thereof.

The Federal Reserve Bank of Dallas is authorized to accept payment in bank checks or drafts of deferred availability, at the risk of the member bank.

The Federal Reserve Bank of Dallas shall not be liable for loss in transmission of either the drafts or any documents accompanying them; and should the collecting agent or intermediary agency convert or in anywise lose, destroy or make wrongful or erroneous delivery of such drafts or documents, or the proceeds thereof, or remit in payables which are thereafter dishonored, or should the funds become involved in litigation, or the Federal Reserve Bank of Dallas, from any cause, not receive actually collected funds within a reasonable time, in its judgment, it reserves the right to at any time charge the amounts of such drafts back to the account of the member bank from which received.

Where remittances for items previously charged back are made in funds not immediately available, credit will be deferred for the actual number of days that it takes to convert such remittances into available funds.

Inasmuch as neither the Federal Reserve Bank of Dallas nor its collecting agencies have any means of knowing when shipments arrive, the Federal Reserve Bank of Dallas shall not be responsible in any event for delay in demand or presentment where drafts are accompanied by instructions to hold for arrival of shipments or other similar instructions.

#### **Presentation of Drafts**

Sight and demand drafts will be forwarded with instructions to collecting bank to immediately present and to return if not paid upon presentation; provided, however, should it be desired that presentation for payment be withheld until arrival of shipment, such instructions will be followed if included in letter of transmittal from the member bank, or if attached to individual items. These instructions must not be incorporated in the wording of the drafts themselves, but may be shown separately, over the authorized signature of the drawer.

#### **Protest Instructions**

In the absence of instructions to the contrary, the Federal Reserve Bank of Dallas will, at its discretion, forward drafts with protest instructions, but should the member bank prefer that they be sent "no protest," such instructions will be followed where drawers insert proper waiver of protest above their signatures. The following clause is suggested for this purpose:

"Waiving demand, protest and notice of nonpayment."

Drafts will, of course, be sent subject to protest where member banks so instruct.

#### **Cost of Collection**

Member banks will be charged with actual expenses incurred in the collection of bill of lading drafts, such as exchange charges, cost of telegrams, etc., but no service charge will be made by the Federal Reserve Bank of Dallas.

Every bank sending bill of lading drafts to the Federal Reserve Bank of Dallas will be understood to have agreed to the terms and conditions and to all provisions of this circular.

Yours very truly,



Governor.