

FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, September 18, 1946

To the Member Banks in the
Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System has adopted, effective August 31, 1946, a revision of Regulation C, "Acceptance by Member Banks of Drafts or Bills of Exchange." The regulation governs the acceptance of drafts or bills drawn against domestic or foreign shipments of goods or secured by warehouse receipts covering readily marketable staples and the acceptance of drafts or bills drawn for the purpose of creating dollar exchange.

This revision was prompted by the fact that Regulation C has not been changed for many years and because the prospective revival of international trade, as a result of the end of the war, may find American banking institutions called upon to open acceptance credits in substantial amounts for foreign and domestic clients. The revision brings the existing regulation up to date and also clarifies some of its provisions.

A copy of the revised regulation is enclosed. Please substitute it for the copy of Regulation C dated May 15, 1930, now in your ring binder.

Yours very truly,

R. R. GILBERT

President

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

ACCEPTANCE BY MEMBER BANKS OF
DRAFTS OR BILLS OF EXCHANGE



REGULATION C

As Revised Effective August 31, 1946



INQUIRIES REGARDING THIS REGULATION

**Any inquiry relating to this regulation should be addressed
to the Federal Reserve Bank or Federal
Reserve branch bank of the district
in which the inquiry arises.**

REGULATION C

Revised Effective August 31, 1946
(Superseding Regulation C, Series of 1928)

ACCEPTANCE BY MEMBER BANKS OF DRAFTS OR BILLS OF EXCHANGE

Introduction

This Regulation is based upon and issued pursuant to various provisions of the Federal Reserve Act, particularly the provisions of the seventh and twelfth paragraphs of section 13 of such Act, the texts of which are published in the appendix hereto. The Regulation relates to the acceptance by member banks of drafts or bills of exchange. Provisions governing the eligibility of bankers' acceptances of member banks for discount by the Federal Reserve Banks are contained in Regulation A; and provisions governing the purchase of bankers' acceptances by the Federal Reserve Banks are contained in Regulation B.

SECTION 1. ACCEPTANCE OF COMMERCIAL DRAFTS OR BILLS

(a) **Authority.**—Any member bank may accept drafts or bills of exchange drawn upon it which grow out of any of the following transactions (hereinafter referred to as "commercial drafts or bills"):

(1) The importation or exportation of goods, that is, the shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between dependencies or insular possessions and foreign countries, or between foreign countries;¹

(2) The shipment of goods within the United States, provided shipping documents conveying or securing title are attached or are in the physical possession of the accepting bank or its agent at the time of acceptance;

(3) The storage in the United States or in any foreign country of readily marketable staples,² provided that the draft or bill of exchange is secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering such readily marketable staples.³

¹ A member bank accepting any commercial draft or bill growing out of a transaction of the kinds described in subsection (a)(1) of section 1 will be expected to obtain before acceptance and retain in its files satisfactory evidence, documentary or otherwise, showing the nature of the transactions underlying the credit extended.

² A readily marketable staple within the meaning of this Regulation means an article of commerce, agriculture, or industry, of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable, and (b) the staple itself easy to realize upon by sale at any time.

³ It should be noted that pursuant to Regulations A and B Federal Reserve Banks may neither discount nor purchase bills arising out of the storage of readily marketable staples unless the acceptor remains secured throughout the life of the bill.

(b) **Maturity.**—No member banks shall accept any commercial draft or bill unless at the date of its acceptance such draft or bill has not more than six months to run, exclusive of days of grace.

(c) **Acceptances for one person.**—No member bank shall accept commercial drafts or bills, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation in an amount equal at any time in the aggregate to more than 10 per cent of its paid-up and unimpaired capital stock and surplus, unless the bank be and remain secured as to the amount in excess of such 10 per cent limitation by either attached documents or some other actual security growing out of the same transaction as the acceptance; but a trust receipt which permits the customer to have access to or control over the goods will not be considered “actual security” within the meaning of this subsection.

(d) **Limitation on aggregate amount.**—No member bank shall accept commercial drafts or bills in an amount equal at any time in the aggregate to more than 50 per cent of its paid-up and unimpaired capital stock and surplus; except that, with the permission of the Board of Governors of the Federal Reserve System as provided in subsection (e) of this section, any such member bank may accept such drafts or bills in an amount not exceeding at any time in the aggregate 100 per cent of its paid-up and unimpaired capital stock and surplus (hereinafter referred to as “authority to accept commercial drafts or bills up to 100 per cent”); but in no event may the aggregate amount of such acceptances growing out of domestic transactions exceed 50 per cent of such capital and surplus. Commercial drafts or bills accepted by another bank, whether domestic or foreign, at the request of a member bank which agrees to put such other bank in funds to meet such acceptances at maturity shall be considered as part of the acceptance liabilities of the member bank requesting such acceptances as well as of such other bank, if a member bank, within the meaning of the limitations prescribed in this section.

(e) **Authority to accept up to 100 per cent.**—(1) Any member bank desiring authority to accept commercial drafts or bills up to 100 per cent shall file with the Board of Governors, through the Federal Reserve Bank of its district, an application for permission to exercise such authority. Such application need not be made in any particular form, but shall show the present and anticipated need of the applicant bank for the authority requested.

(2) The Board of Governors may at any time rescind any authority granted by it pursuant to this section after not less than 90 days' notice in writing to the bank affected.

SECTION 2. ACCEPTANCE OF DRAFTS OR BILLS TO FURNISH DOLLAR
EXCHANGE

(a) **Authority.**—(1) Any member bank, after obtaining the permission of the Board of Governors, may accept drafts or bills of exchange drawn upon it by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange (hereinafter referred to as “dollar exchange drafts or bills”) as required by the usages of trade in the respective countries, dependencies, or insular possessions, subject to the conditions set forth in this section. Any member bank desiring to obtain such permission shall file with the Board of Governors through the Federal Reserve Bank of its district an application for such permission. Such application need not be in any particular form but shall show the present and anticipated need for the authority requested.

(2) The Board of Governors may at any time rescind any permission granted by it pursuant to this section after not less than 90 days’ notice in writing to the bank affected.

(b) **Countries with respect to which dollar exchange drafts or bills may be accepted.**—(1) Any such foreign country or dependency or insular possession of the United States must be one of those specified in a list published by the Board of Governors for the purposes of this Regulation, with respect to which the Board of Governors has found that the usages of trade are such as to justify banks or bankers therein in drawing on member banks for the purpose of furnishing dollar exchange. Any member bank desiring to place itself in position to accept drafts or bills of exchange from a country, dependency, or insular possession not specified in such list may request the Board of Governors through the Federal Reserve Bank of its district to add such country, dependency, or insular possession to the list upon a showing that the furnishing of dollar exchange is required by the usages of trade therein.

(2) The Board of Governors may at any time, after 90 days’ published notice, remove from such list the name of any country, dependency, or insular possession, contained therein.

(c) **Purpose of transaction.**—(1) Any such dollar exchange draft or bill must be drawn and accepted in good faith for the purpose of furnishing dollar exchange as required by the usages of trade in the country, dependency, or insular possession in which the draft or bill is drawn. Drafts or bills drawn merely because dollar exchange is at a premium in the place where drawn or for any speculative purpose or drafts or bills commonly referred to as “finance bills” (i.e., which

are not drawn primarily to furnish dollar exchange) will not be deemed to meet the requirements of this section.

(2) The aggregate of drafts or bills accepted by such member bank for any one foreign bank or banker shall not exceed an amount which the member bank would expect such foreign bank or banker to liquidate within the terms of the agreements under which the drafts or bills were accepted, through the proceeds of export documentary bills or from other sources reasonably available to such foreign bank or banker arising in the normal course of trade.

(d) **Maturity.**—Such member bank shall not accept any dollar exchange draft or bill unless at the date of its acceptance it has not more than three months to run, exclusive of days of grace.

(e) **Acceptances for one bank or banker.**—Such member bank shall not accept dollar exchange drafts or bills for any one bank or banker in an amount exceeding in the aggregate 10 per cent of the paid-up and unimpaired capital and surplus of the accepting bank, unless it be and remain secured as to the amount in excess of such 10 per cent limitation by documents conveying or securing title or by some other adequate security.

(f) **Limitation on aggregate amount.**—Such member bank shall not accept dollar exchange drafts or bills in an amount exceeding at any one time in the aggregate 50 per cent of its paid-up and unimpaired capital and surplus. This limitation is separate and distinct from and not included in the limitations prescribed by subsection (d) of section 1 of this Regulation with respect to acceptances of commercial drafts or bills. Dollar exchange drafts or bills accepted by another bank, whether domestic or foreign, at the request of a member bank which agrees to put such other bank in funds to meet such acceptances at maturity shall be considered as part of the acceptance liabilities of the member bank requesting such acceptances as well as of such other bank, if a member bank, within the meaning of the limitations prescribed in this section.

APPENDIX

STATUTORY PROVISIONS

With respect to the acceptance by member banks of drafts or bills of exchange, the seventh paragraph of section 13 of the Federal Reserve Act, as amended, provides as follows:

Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus: *Provided, however,* That the Board of Governors of the Federal Reserve System, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus: *Provided further,* That the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus.

With respect to dollar exchange acceptances, the twelfth paragraph of section 13 of the Federal Reserve Act, as amended, provides as follows:

Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Board of Governors of the Federal Reserve System by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing

dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by Federal Reserve banks in such amounts and subject to such regulations, restrictions, and limitations as may be prescribed by the Board of Governors of the Federal Reserve System: *Provided, however,* That no member bank shall accept such drafts or bills of exchange referred to¹ this paragraph for any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security: *Provided further,* That no member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus.

¹ So in statute as enacted.