

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-94
April 1, 1974

To the Chief Executive Officer of the Member Bank Addressed
in the Eleventh Federal Reserve District:

On March 26, 1974, the Board of Governors of the Federal Reserve System issued the following press release which pertains to open market operations in bankers' acceptances:

The Federal Reserve announced today a realignment and modernization of its rules relating to open market operations in bankers' acceptances. The actions are effective April 1.

No major change in System operations in bankers' acceptances is expected to result from this action which eliminates outdated provisions in the rules and broadens somewhat the scope of bankers' acceptances eligible for purchase by the Federal Reserve.

Bankers' acceptances are primarily negotiable time drafts drawn to finance the international or domestic shipment or storage of goods and are termed accepted when a bank assumes the obligation to make payment at maturity.

In companion actions, the Board of Governors rescinded its Regulation B--relating to open market purchases of bills of exchange and acceptances--while the Federal Open Market Committee (FOMC) incorporated the major elements of that regulation, with some technical changes, into its rules on the conduct of open market operations.

The new rules authorize the Federal Reserve Bank of New York to buy (outright or under repurchase agreement) and sell "prime" bankers' acceptances with maturities of up to nine months at the time of acceptance that:

1. Arise out of the current shipment of goods between countries or within the United States, or
2. Arise out of the storage within the United States of goods under contract of sale or expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The new rules eliminate the present requirement that banks have in their possession shipping documents conveying or securing title at the time they accept drafts covering the shipment of goods within the United States. This would remove a presently existing difference between the documentation required for international and domestic shipment of goods in this respect.

The amendments also remove dollar exchange bills from the list of acceptances authorized for System purchase, since these instruments are seldom used; increase from six to nine months the maturity of acceptances eligible for purchase by the Federal Reserve; and broaden the definition of such acceptances to include those that finance the storage of any goods rather than "readily marketable staples."

In taking this action, the FOMC also instructed the System's staff to continue its studies to determine whether Federal Reserve open market operations in bankers' acceptances should be expanded to encompass all types of "prime" acceptances, including finance bills. The Board last year applied a reserve requirement to finance bills.

In another action, the Board of Governors announced the revocation of its Regulation C entitled "Acceptances by Member Banks of Drafts or Bills of Exchange." This regulation is outdated and in its present form primarily repeats the provision of the Federal Reserve Act relating to this area.

As the statutory authority on which Regulation C was based remains unchanged, the Board of Governors also announced that interpretations previously issued in connection with this regulation will continue in full force and effect for the present. However, the Board plans to undertake a general review of these interpretations to determine where modifications should be made in light of current business and banking practices which relate to the acceptance function. The Board stated that it would be aided in its review if those familiar with the outstanding interpretations would submit views and comments as to their applicability to existing trade practices. Comments may be forwarded to the Board of Governors of the Federal Reserve System, Washington, D.C. 20551

As the Board of Governors has rescinded Regulations B and C, these documents should be removed from the ring binders previously furnished you.

Yours very truly,

P. E. Coldwell

President