

At a regular meeting of the Federal Reserve Board held in the office of the Board at 3.10 p.m. on Thursday, September 2,

PRESENT:

Mr. McAdoo, presiding, Mr. Warburg

Mr. Hamlin Mr. Harding

Mr. Williams Mr. Miller

Mr. Willis, Secretary.

After discussion it was agreed to refer to the Executive Committee the question of by-laws regulating the holding and calling of meetings of the Federal Reserve Board, the same to be reported to the Board for its action.

The question of open market transactions having been proposed for consideration, it was agreed that the question be made a special order for the meeting of Wednesday, September 8.

// Discussion of the proposed regulation with reference to the establishment of a special rate for commodity paper and the issuance of a regulation relating thereto, was begun. Mr. Warburg expressed the view that it would be to the advantage of the Federal Reserve system if it were permitted to develop its facilities of rediscounting between

districts. Some of the Federal reserve banks had difficulty in earning their operating expenses and would welcome an opportunity of rediscounting this commodity paper for the Southern banks. He was confident that at 3% these rediscounts could be made (possibly even lower) and that thus there was an ample margin for the Southern producer to receive credit facilities at 6%, the member bank receiving rediscounts at $3\frac{1}{2}\%$ or 4%, whatever rate the Southern Federal reserve banks would decide upon. The result to the producer would be the same but the free development of the Federal reserve system would not be interfered with. If the desired result would not be achieved it would be time for the secretary then to deposit his funds. Of course, it was desirable to have fiscal relations established with the Treasury in all the Federal reserve banks, but that was not the question involved here, but a deposit of large sums for a particular purpose. He urged this view upon the Secretary of the Treasury.

After the subject had been further fully canvassed, Mr. Williams offered the following revised draft of the proposed regulation:

Regulation J.
Series of 1915.
(Superseding Regulation D
of 1915)

F E D E R A L R E S E R V E B O A R D .

Washington, April 2, 1915.

Bankers' Acceptances.

I.

Definition.

In this regulation the term "acceptance" is defined as a draft or bill of exchange drawn to order, having a definite maturity, and payable in dollars, in the United States, the obligation to pay which has been accepted by an acknowledgment written or stamped and signed across the face of the instrument by the party on whom it is drawn; such agreement to be to the effect that the acceptor will pay at maturity according to the tenor of such draft or bill without qualifying conditions.

II.

Statutory Requirements Under Sections 13 and 14.

Section 13 of the Federal Reserve Act as amended provides that -

- (a) Any Federal Reserve Bank may discount acceptances -
 - (1) Which are based on the importation or exportation of goods;
 - (2) Which have a maturity at time of discount of not more than three months; and
 - (3) Which are indorsed by at least one member bank.
- (b) The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made, except by authority of the Federal Reserve Board and of such general regulations as said Board may prescribe, but not to exceed the capital stock and surplus of such bank.
- (c) The aggregate of notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no

time exceed 10 per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Section 14 of the Federal Reserve Act permits Federal Reserve Banks, under regulations to be prescribed by the Federal Reserve Board, to purchase and sell in the open market bankers' acceptances, with or without the indorsement of a member bank.

III.

Ruling.

The Federal Reserve Board, exercising its power of regulation with reference to paragraph II (b) hereof, rules as follows:

Any Federal Reserve Bank shall be permitted to discount for any member bank "bankers' acceptances" as hereinafter defined up to an amount not to exceed the capital stock and surplus of the bank for which the rediscounts are made.

IV.

Eligibility.

The Federal Reserve Board has determined that, until further order, to be eligible for discount under section 13, by Federal Reserve banks, at the rates to be established for bankers' acceptances:

- (a) Acceptances must comply with the provisions of Paragraph II (a), (b), (c) hereof;
- (b) Acceptances must have been made by a member bank, nonmember bank, trust company, or by some firm, person, company, or corporation engaged in the business of accepting or discounting. Such acceptances will hereafter be referred to as "bankers' acceptances;*

*Drafts and bills of exchange eligible for rediscount under section 13, other than "bankers'" acceptances, have been dealt with by Regulation B, series of 1915.

- (c) A banker's acceptance must be drawn by a purchaser or seller or other person directly connected with the importation or exportation of the goods involved in the transaction in which the acceptance originated, or by a "banker."
- (d) A banker's acceptance must bear on its face or be accompanied by evidence in form satisfactory to a Federal Reserve Bank that, it originated in or is based upon a transaction or transactions involving the importation or exportation of goods. Such evidence may consist of a certificate on or accompanying the acceptance to the following effect:

This acceptance is based upon a transaction involving the importation or exportation of goods. Reference No. _____. Name of acceptor _____.

- (e) Bankers' acceptances, other than those of member banks, shall be eligible only after the acceptors shall have agreed in writing to furnish to the Federal Reserve Banks of their respective districts, upon request, information concerning the nature of the transactions against which acceptances (certified or bearing evidence under IV (d) hereof) have been made.
- (f) A bill of exchange accepted by a "banker" may be considered as drawn in good faith against "actually existing values," under II (c) hereof, when the acceptor is secured by a lien on or by transfer of title to the goods to be transported or by other adequate security;
- (g) Except in so far as they may be drawn in good faith against actually existing values as under (f), the bills of any one drawer, drawn on and accepted by any firm, person company, or corporation (other than a bank or trust company) engaged in the business of discounting and accepting, and discounted by a Federal Reserve Bank, shall at no time exceed in the aggregate a sum equal to a definite percentage of the paid-in capital of such Federal Reserve Bank; such percentage to be fixed from time to time by the Federal Reserve

Board.

- (h) The aggregate of acceptances of any firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting or accepting, and discounted or purchased by a Federal Reserve Bank, shall at no time exceed a sum equal to a definite percentage of the paid-in capital of such Federal Reserve Bank; such percentage to be fixed from time to time by the Federal Reserve Board.

Federal Reserve Banks may under section 14 of the Act, purchase bankers' acceptances in the open market without regard to the requirements and limitations hereinbefore stated, Provided, however, That no Federal Reserve Bank shall purchase the acceptance of a "banker" other than a member bank which does not bear the indorsement of a member bank, unless a Federal Reserve Bank has first secured a satisfactory statement of the financial condition of the acceptor in form to be approved by the Federal Reserve Board.

V.

Policy as to Purchases.

While it would appear impracticable to fix a maximum sum or percentage up to which Federal Reserve Banks may invest in bankers' acceptances, both under section 13, and section 14, it will be necessary to watch carefully the aggregate amount to be held from time to time. In framing their policy with respect to transactions in acceptances, Federal Reserve Banks will have to consider not only the local demands to be expected from their own members, but also requirements to be met in other districts. The plan to be followed must in each case adapt itself to the constantly varying needs of the country.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

Mr. Warburg offered as an amendment to the draft of Mr. Williams, the same to take the place of provision (b)

therein, the following:

"The maximum rate on the original discount of commodity paper as a condition of eligibility for rediscount at the special rate herein authorized, shall be established by the Federal reserve banks subject to the review and determination of the Federal Reserve Board."

On being put to a vote Mr. Warburg's amendment was declared lost.

The question recurring on the original proposal of Mr. Williams, the revised draft of the regulation was declared adopted, Mr. Warburg voting in the negative.

The Secretary of the Board was directed to telegraph to the Federal reserve banks of Atlanta, Dallas and Richmond, giving the substance of the regulation as thus adopted and asking that they make any suggestions that might occur to them, especially inquiring of Atlanta whether that bank adhered to the rate of $3\frac{1}{2}\%$ on commodity paper proposed by it in its regular discount rate notice for the week. It was agreed that the replies of the several banks, and the text of the regulation as tentatively adopted should be taken up for consideration at a meeting to be held on the morning of September 3, the whole matter to be disposed of, if possible, at that time.

The Secretary prepared telegrams in accordance with the instructions thus conveyed, submitted them for approval and ordered them sent.

The revision of Regulation J, relating to Bankers' Acceptances, was taken up for consideration and amendment, and the Secretary of the Treasury presented a proposed revision of the Board's existing regulation prepared by Governor Strong, of the Federal Reserve Bank of New York. Mr. Warburg stated that it would be advisable that the whole question of the relationship of the Board and the Federal reserve banks on the one hand, and foreign governments or governmental institutions or those acting for them, on the other, should be referred to the State Department in order to obtain a clear expression with reference to the attitude of the Government on any questions that might involve the neutrality of the United States.

Commenting upon the suggestions of Mr. Warburg, the Secretary of the Treasury said that he did not think any questions of neutrality were involved in the proposed regulations concerning bankers' acceptances; that whatever action the Board might take would have reference to the carrying out the purposes and objects of the Federal Reserve Act; that the Board had no right to adopt regulations which discriminate

against or in favor of any part of the lawful commerce of the United States, and that counsel of the Board had so advised. That the financing of our lawful commerce was one of the purposes of the Federal Reserve Act; that if any questions of neutrality should be raised, they would relate to specific transactions in which the Federal reserve banks or member banks proposed to engage: that it seemed to him that in all such cases the proper course for the banks would be to apply to the State Department, whose function it was to pass upon questions involving neutrality.

Governor Hamlin offered and Mr. Williams seconded a motion that the Strong revision, or draft, of the acceptance regulation be adopted as it stood, with the exception of the proposed changes in the last paragraph on page 4, making the proposed draft read as follows:

Federal Reserve Banks may under section 14 of the Act, purchase acceptances in the open market without regard to the requirements and limitations hereinbefore stated, Provided, however, That no Federal Reserve Bank shall purchase the acceptance of a "banker" other than a member bank which does not bear the indorsement of a member bank, unless a Federal Reserve Bank has first secured a satisfactory statement of the financial condition of the acceptor in form to be approved by the Federal Reserve Board.

Without further discussion the motion was tabled

until the next meeting of the Board.

On motion the Board adjourned to meet at 10:30
a. m., September 3.

H. Parker Wilks
Secretary.

APPROVED:

Chairman.