

Upon call of the Governor, a meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, October 13, 1927, at 2:45 p.m.

PRESENT: Governor Young  
Mr. Platt  
Mr. Hamlin  
Mr. Miller  
Mr. James  
Mr. Cunningham  
Mr. Eddy, Secretary  
Mr. McClelland, Asst. Secretary

PRESENT ALSO: Mr. Wyatt, General Counsel  
Mr. Herson, Chief Examiner  
Mr. Kenzel, Deputy Governor, Federal Reserve  
Bank of New York

The Governor stated that in accordance with the informal understanding reached at the meeting of the Board on October 7th, Mr. Kenzel had been invited down to Washington for the purpose of discussing possible amendments to Article B of the Board's Regulation A, with regard to the discount of bankers acceptances under Section 13a of the Federal Reserve Act, and Regulation B, relating to open market purchases of acceptances under Section 14 of the Act. He stated that Mr. Kenzel and Mr. Wyatt had gone over the regulations in question this morning, and requested Mr. Wyatt to report the results of their conference.

Mr. Wyatt stated that after discussing certain developments in acceptance practice reported by Mr. Kenzel, particularly with reference to the financing of foreign trade, the conclusion had been reached that no amendments to the Board's regulations are necessary in order to deal with these matters, but that it may be necessary for the Board to consider changes in certain of its rulings relative to the handling of acceptances by Federal Reserve banks and member banks.

The Governor then requested discussion of the advisability of

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amending Article B of Regulation A so as to make eligible for discount by Federal Reserve banks bankers acceptances secured by terminal elevator or warehouse receipts issued by the borrower under warehousing conditions similar to those which exist in the State of Minnesota. He pointed out that the Governors' Conference held in the fall of 1926 recommended such an amendment to the Board but that the recommendation was disapproved.

An informal discussion ensued during which it appeared that the attitude of the majority of the members of the Board on this matter was unchanged, and, therefore, the question was not brought to a vote.

Consideration was then given to Article B of Regulation A, following which the article was adopted in the following form:

#### ARTICLE B

#### BANKERS' ACCEPTANCES <sup>3</sup>

#### SECTION X. DEFINITION

A bankers' acceptance within the meaning of this regulation is defined as a draft or bill of exchange, whether payable in the United States or abroad and whether payable in dollars or some other money, of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged generally in the business of granting bankers' acceptance credits.

#### SECTION XI. ELIGIBILITY

A Federal reserve bank may discount any such bill bearing the indorsement of a member bank and having a maturity at the time of discount not greater than that prescribed by Section XII (a), which has been drawn under a credit opened for the purpose of conducting or settling accounts resulting from a transaction or transactions involving any one of the following:

<sup>3</sup> For regulations governing the acceptance by member banks of drafts and bills of exchange drawn on them, see Regulation C, p. \_\_.

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(1) 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 foreign countries, or between dependencies or insular possessions and foreign countries;

(2) The shipment of goods within the United States, provided shipping documents conveying security title are attached at the time of acceptance; or

(3) The storage in the United States or in any foreign country of readily marketable staples,<sup>4</sup> provided that the bill is secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer, and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (a) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (b) that a new document, similar to the original one, will be resubstituted within a specified time.

Provided, that acceptances for any one customer in excess of 10 per cent of the capital and surplus of the accepting bank must remain actually secured throughout the life of the acceptance, and in the case of the acceptances of member banks this security must consist of shipping documents, warehouse receipts, or other such documents, or some other actual security growing out of the same transaction as the acceptance, such as documentary drafts, trade acceptances, terminal receipts, or trust receipts which have been issued under such circumstances, and which cover goods of such a character, as to insure at all times a continuance of an effective and lawful lien in favor of the accepting bank, other trust receipts not being considered such actual security if they permit the customer to have access to or control over the goods.

A Federal reserve bank may also discount any bill drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange as provided in Regulation C, provided that it has a maturity at the time of discount of not more than three months, exclusive of days of grace.

## SECTION XII. MATURITIES

(a) LEGAL REQUIREMENTS.-- No such acceptance is eligible for dis-

<sup>4</sup> A readily marketable staple within the meaning of these regulations may be defined as 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



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count which has a maturity at the time of discount in excess of 90 days' sight, exclusive of days of grace, except that acceptances drawn for agricultural purposes and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with maturities at the time of discount of not more than six months' sight, exclusive of days of grace.

(b) GENERAL CONDITIONS AS TO MATURITY OF DOMESTIC ACCEPTANCES.- Although a Federal reserve bank may legally discount an acceptance having a maturity at the time of discount not greater than that prescribed under (a), it may decline to discount any acceptance the maturity of which is in excess of the usual or customary period of credit required to finance the underlying transaction or which is in excess of that period reasonably necessary to finance such transaction. Since the purpose of permitting the acceptance of drafts secured by warehouse receipts or other such documents is to permit of the temporary holding of readily marketable staples in storage pending a reasonably prompt sale, shipment, or distribution, no such acceptance should have a maturity in excess of the time ordinarily necessary to effect a reasonably prompt sale, shipment, or distribution into the process of manufacture or consumption.

#### SECTION XIII. EVIDENCE OF ELIGIBILITY

A Federal reserve bank must be satisfied, either by reference to the acceptance itself or otherwise, that the acceptance is eligible for discount under the terms of the law and the provisions of this regulation. The bill itself should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal reserve bank.

Regulation B was then given consideration, and no changes being suggested therein, was readopted as follows:

#### REGULATION B, SERIES OF 1927

(Superseding Regulation B of 1924)

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

##### SECTION I. GENERAL STATUTORY PROVISIONS

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

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## SECTION 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, prescribes that-

(a) Any bankers' acceptance or bill of exchange which is eligible for discount under the terms of Regulation A is eligible for purchase by Federal reserve banks in the open market, with or without the indorsement of a member bank, if-

(1) It has been accepted by the drawee prior to purchase; or

(2) It is accompanied or secured by shipping documents or by warehouse, terminal, or other similar receipts conveying security title; or

(3) It bears a satisfactory bank indorsement;

(b) A bankers' 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 applicable requirements of Regulation A; and

(c) A bankers' 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 applicable requirements of Regulation A.

## SECTION 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 bankers' 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.

Consideration was then given to the proposed Regulation D, with respect to reserves of member banks, and it was decided that the proposed regulation should be referred to the forthcoming Conference of Governors, together with the amendments thereto suggested in a memorandum from the Board's Counsel dated August 3, 1927, and comments received from the Executive Committee of the Federal Advisory Council on the proposed section regarding penalties for deficiencies in reserves.

The Governor then requested Mr. Kenzel to acquaint the Board with

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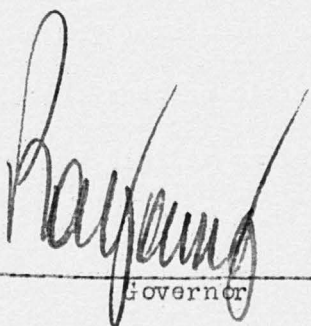
the various matters in connection with acceptance practice which he had discussed with Mr. Wyatt.

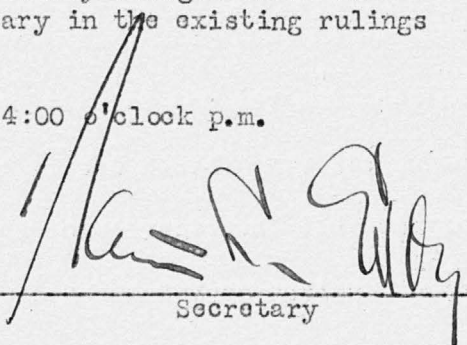
Mr. Kenzel referred to the fact that the volume of sterling acceptances at the present time is about twice that of dollar acceptances, and explained that this was due to the fact that English bankers were accustomed to meeting the requirements of European trade, while American acceptance practice did not entirely meet its needs. He stated that the Federal Reserve banks have in the past assumed a discouraging attitude toward the drawing of acceptances running in excess of 90 days, and that as a general rule acceptance credits required by continental industries run for a longer period. He also stated that another handicap is in rulings by the Federal Reserve Board with respect to renewal bills. He stated that in his opinion the principal changes which would be necessary would be reconsideration of certain of these rulings of the Board and the assumption of a more favorable attitude toward bills running up to six months' maturities. He cited several instances where European borrowers were forced to turn to the English market for acceptance credits because of the present limitations in this country.

Following the discussion, it was suggested to Mr. Kenzel that these matters should be taken up with the General Acceptance Committee and recommendations made to the Board in writing for any changes which the Committee believes necessary in the existing rulings of the Board.

The meeting adjourned at 4:00 o'clock p.m.

Approved:

  
Governor

  
Secretary