

FEDERAL RESERVE BANK
OF NEW YORK

Bill Department

[Circular No. 371]
[May 16, 1921.]

FEDERAL RESERVE BOARD REGULATION B SERIES OF 1921

Superseding Regulation B of 1920

*To each Bank, Trust Company and Other Accepting Banker
in the Second Federal Reserve District :*

Under a new regulation of the Federal Reserve Board, six months bankers acceptances issued in import and export transactions become eligible for open market purchase by Federal Reserve Banks.

Therefore, bills of the longer maturities up to six months, when required by the usages of overseas trade, may now be offered to the Federal Reserve Bank of New York for purchase as the shorter bills heretofore have been.

The effect of the longer *eligible* maturity is expected not only to provide to the discount market a class of paper for which there heretofore has been an unsatisfied demand, but also to place more effectively the facilities of the open discount market at the service of overseas commerce.

A copy of the new Regulation B, Series of 1921, is sent to you herewith. It supersedes Regulation B of 1920, and should be inserted at page 8 of the Federal Reserve Board's Regulations, Series of 1920, a copy of which was mailed to banking institutions in this Federal Reserve district on October 27, 1920.

Very truly yours,

BENJ. STRONG

Governor

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

I. GENERAL STATUTORY PROVISIONS.

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

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, has determined that a bill of exchange or acceptance, to be eligible for purchase by Federal Reserve Banks under this provision of section 14, must have been accepted by the drawee prior to such purchase unless it is either accompanied or secured by shipping documents or by warehouse, terminal, or other similar receipt conveying security title or bears a satisfactory banking indorsement, and must conform to the relative requirements of Regulation A, except that—

(a) 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 relative requirements of Regulation A, and

(b) 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 relative requirements of Regulation A.

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.

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FEDERAL RESERVE BOARD.

WASHINGTON, May 6, 1921.

The Federal Reserve Board transmits herewith its Regulation B, Series of 1921, superseding Regulation B, Series of 1920, relating to open-market purchases by Federal Reserve Banks of bills of exchange, trade acceptances, and bankers' acceptances under section 14 of the Federal Reserve Act. The new regulation is issued primarily for the purpose of permitting Federal Reserve Banks until further notice to purchase in the open market bankers' acceptances with maturities not in excess of six months, which grow out of transactions involving the importation or exportation of goods. Heretofore three months has been the maximum maturity of acceptances eligible for purchase by the Federal Reserve Banks. This amendment to the Board's regulation was recommended by the Federal Advisory Council at its conference in February, 1921, and by the Governors of the Federal Reserve Banks at their conference in April, 1921.

Two considerations have led the Board to take this action: (1) The desire to widen the acceptance market by meeting the wants of savings banks and similar purchasers of bankers' acceptances who are now deterred from investing in acceptances of longer than three months' maturity, because of the lack of authority of Federal Reserve Banks to purchase longer maturities up to six months; (2) to provide more ample facilities for financing import and export trade with countries where either normal conditions or present abnormal conditions indicate the desirability of rendering assistance by making acceptances of maturities not exceeding six months eligible for purchase by Federal Reserve Banks. While the Federal Reserve Banks would, under ordinary conditions, prefer to confine their investments to paper of short maturity, that is, not exceeding three months, it is believed that the present emergency in the foreign trade situation would be relieved by a more liberal practice. Vigilant care, however, should be exercised by Federal Reserve Banks in purchasing acceptances of long maturities, in order that the liquidity of the aggregate investment in acceptances held by them should not be affected. In amending its regulation in the manner described, the Board looks to the good banking judgment and discretion of the accepting banks and of the Federal Reserve Banks to avoid any untoward results. To avoid misunderstanding, the Board desires to add that the results of this widening of the investment powers of the Federal Reserve Banks will be followed closely, with a view to such modification of its rules or amendment of its regulations as future developments may indicate to be necessary.

The Board has also taken this occasion to make another slight amendment to Regulation B so that its terms will more clearly indicate the Board's purpose in permitting Federal Reserve Banks to purchase in the open market bankers' acceptances growing out of the domestic storage of goods other than readily marketable staples.

W. W. HOXTON,
Secretary.

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W. P. G. HARDING,
Governor.

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