

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7366]
March 27, 1974

RULES ON OPEN MARKET OPERATIONS IN BANKERS' ACCEPTANCES

—Revocation of Regulations B and C

—Changes in FOMC Regulation and Authorization

*To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

Following is the text of a statement issued March 26 by the Board of Governors of the Federal Reserve System:

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No major change in System operations in bankers' acceptances is expected to result from this action, which eliminates outdated provisions in the rules and broadens somewhat the scope of bankers' acceptances eligible for purchase by the Federal Reserve.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In companion actions, the Board of Governors rescinded its Regulation B—relating to open market purchases of bills of exchange and acceptances—while the Federal Open Market Committee (FOMC) incorporated the major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 channels 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.

Enclosed are copies of the Board's Orders effecting the revocation of Regulations B and C, effective April 1, 1974. In addition, printed on the following pages are the texts of the amend-

ments, also effective April 1, 1974, to the FOMC's Regulation Relating to Open Market Operations of Federal Reserve Banks and to its Authorization for Domestic Open Market Operations, in the form in which they were submitted for publication in the *Federal Register*.

Additional copies of this circular and its enclosures will be furnished upon request.

ALFRED HAYES,
President.

TITLE 12—BANKS AND BANKING
CHAPTER II—FEDERAL RESERVE SYSTEM
SUBCHAPTER B—FEDERAL OPEN MARKET COMMITTEE
PART 270—OPEN MARKET OPERATIONS OF FEDERAL RESERVE BANKS

Purchase of Bankers' Acceptances

The Federal Open Market Committee has amended its Regulation Relating to Open Market Operations of Federal Reserve Banks (Part 270), effective April 1, 1974. Prior to this amendment, the Regulation authorized the purchase and sale of bankers' acceptances which were eligible for purchase and sale as provided in Regulation B of the Board of Governors (12 CFR 202). Effective the same date, the Board of Governors has revoked Regulation B. Beginning April 1, 1974, purchase and sale of bankers' acceptances by Federal Reserve Banks will be conducted pursuant to provisions of paragraphs 1(b) and 1(c) of the Committee's Authorization for Domestic Open Market Operations, as amended effective on that date. The new rules, as set forth in the Authorization, eliminate outdated provisions in the present rules specified in Regulation B and broaden somewhat the scope of bankers' acceptances eligible for purchase by Federal Reserve Banks.

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 shipments 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 amending the Committee's Regulation, the requirements of section 553, Title 5, United States Code, with respect to notice, public participation and deferred effective date were not followed because the changes "relieve a restriction" (see 5 U.S.C. 553(d)(1)) and following such procedures would be unnecessary (see 5 U.S.C. 553(b)).

Effective April 1, 1974, section 270.4(c)(2) of the Regulation Relating to Open Market Operations of Federal Reserve Banks is amended to read:

SECTION 270.4—CONDUCT OF
OPEN MARKET OPERATIONS

* * *

(c) In accordance with such limitations, terms, and conditions as are prescribed by law and in authorizations and directives issued by the Committee, the Reserve Bank selected by the Committee is authorized and directed—

* * *

(2) To buy and sell bankers' acceptances in the open market for its own account;

* * *

By order of the Federal Open Market Committee,
effective April 1, 1974.

FEDERAL RESERVE SYSTEM
FEDERAL OPEN MARKET COMMITTEE
Authorization for Domestic Open Market Operations

In accordance with section 271.3(a)(4) and (5) of the Rules Regarding Availability of Information of the Federal Open Market Committee, there are set forth below paragraphs 1(b) and 1(c) of the Committee's Authorization for Domestic Open Market Operations, as amended by action of the Committee effective April 1, 1974:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York,

to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

* * *

"(b) To buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market dis-

count rates, 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 channels 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; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed \$125 million.

“(c) To buy U. S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers' acceptances of the types authorized for purchase under 1(b) above, from nonbank dealers for the account of the Federal Reserve

Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.”

By order of the Federal Open Market Committee,
effective April 1, 1974.