

FEDERAL RESERVE BOARD.

Washington, D. C.

December 22, 1914.

Subject: - Bankers' Acceptances.Section 14 - Federal Reserve Act.

The Federal Reserve Board on November 10, 1914, promulgated Regulations Nos. 2 and 6, governing the conditions upon which Federal Reserve banks might discount bank acceptances.

The Board hereby revokes Regulation No. 6 and substitutes therefor Regulation No. 6a, hereto attached.

Under Section 14 of the Act, the Federal Reserve Board is authorized to prescribe rules and regulations under which any Federal reserve bank may "purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount with or without the endorsement of a member bank."

Following the analogy of the Internal Revenue Act of October 22, 1914, which defines the word "banker", the term "bankers' acceptances" whenever used in regulations or circulars of the Federal Reserve Board shall be construed so as to include the acceptances of member banks, non-member banks, trust companies, private banking firms, persons or companies engaged in the business of accepting and discounting.

Under the said Section 14, the Federal reserve banks are given power "to establish from time to time, subject to review and determination of

the Federal Reserve Board, rates of discount to be charged by the Federal reserve banks for each class of paper, which shall be fixed with a view of accommodating commerce and business."

Transactions in "bankers' acceptances" at rates substantially lower than those for commercial paper have already reached considerable proportions in the open market and it is necessary for the Federal reserve banks to establish discount rates covering such paper.

Acceptances covering the importation and exportation of goods have to compete with foreign acceptances in world markets, and the rates for these bankers' acceptances in the United States must be such as to enable the American banker to meet successfully his foreign competitor.

In order to meet these conditions the Board realizes that Federal reserve banks must be allowed some latitude in dealing with such acceptances.

The Federal Reserve Board, has, therefore, determined that in establishing rates for bankers' acceptances Federal reserve banks may from time to time submit to the Federal Reserve Board a maximum and a minimum rate, varying not more than 1 per centum, within the limits of which they may ask to be authorized to purchase bankers' acceptances. Within these limits the Federal reserve banks will be permitted to determine the rates at which they will deal in bankers' acceptances. The Board, however, reserves the right to modify or withdraw this privilege.

Federal reserve banks are requested to furnish to their Federal reserve agents copies of the resolutions authorizing the purchase of bankers acceptances and the limit fixed for the aggregate amount to

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be purchased of each acceptor's paper; and, in addition, a daily statement giving the total amount of all bankers' acceptances purchased, the rates at which purchased, and the names of the acceptor, drawer and endorser of every bill. The Federal Reserve Agent shall forward such copies and statements to the Federal Reserve Board.

In deciding what acceptances shall be considered satisfactory, the Federal Reserve Board must necessarily depend chiefly on the judgment of the officers and directors of the various reserve banks who are in active daily touch with the business situation of the entire district.

C. S. HALLIN

Governor.

H. PARKER WILLIS

Secretary.

12-22-14.