

C O P Y

February 7, 1918.

Mr. Benjamin Strong,
Governor, Federal Reserve Bank,
New York, N. Y.

My dear Sir:

Receipt is acknowledged of your letter of January 29th in which you ask for a statement of the Board's policy in dealing with acceptances drawn under credits extending over a period of one or two years. After a very full discussion of the matter, the Board has decided to authorize this expression of its views in accordance with the principles outlined in the memorandum attached hereto. The banks of New York may, during a period which can be declared ended at any time, proceed upon the basis of this memorandum in accordance with your letter of January 23rd. The essential principles may be summed up as follows:

(1) Acceptance credits opened for periods in excess of ninety days should only, in exceptional cases, extend over a period of more than one year, and in no case for a time exceeding two years.

(2) Banks which are members of groups opening these credits, should not buy their own acceptances, and where an agreement is made with the drawer for purchase of acceptances for future delivery, the rate should not be a fixed one, but should be based upon the rate ruling at the time of the sale.

(3) Transactions covered by these credits should be of a legitimate commercial nature, and acceptances must be eligible according to the rules and regulations of the Board.

(4) Whenever syndicates are formed for the purpose of granting acceptance credits for more than moderate amounts, Federal reserve banks should be consulted with regard to the transaction. The question of eligibility, both from the standpoint of the character of the bill and of the amount involved, will be passed upon by the Federal reserve bank subject to the approval in each case of the Federal Reserve Board.

As stated in the memorandum, the Board will rely upon the fair spirit of cooperation on the part of the New York banks, but it must be understood in passing upon these transactions that not only quality but also quantity must be the controlling factors. The aggregate of these acceptances should not be permitted to constitute the greater proportion of outstanding acceptances at any time, and it must be understood that while the Federal reserve banks and the Federal Reserve Board might look with favor

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upon a transaction as long as the total amount involved is not excessive, transactions of exactly the same character may be ruled out whenever the aggregate amount of outstanding acceptances of this character becomes, in the opinion of the Federal Reserve Board, unduly large.

You are authorized to communicate the contents of this letter to the accepting banks of your district, and the Board will advise the other Federal reserve banks of the policy which has been agreed upon.

Very truly yours,

(Signed) W. P. G. HARDING.

Governor.