

EX-OFFICIO MEMBERS

WILLIAM G. McADOC  
SECRETARY OF THE TREASURY  
CHAIRMAN  
JOHN SKELTON WILLIAMS  
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR  
PAUL M. WARBURG, VICE GOVERNOR  
FREDERIC A. DELANO  
ADOLPH C. MILLER  
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY  
SHERMAN P. ALLEN, ASST. SECRETARY  
AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

X-861

April 2, 1918.

Dear Sir:

In connection with the authority of banks to accept drafts against transactions involving the export of goods, the attention of the Board has been called to certain acceptance transactions, the contract or pledge against which reads as follows:

"We hold against export orders received through United States Food Commission for the Allies, goods in excess of one Hundred thousand dollars (\$100,000.00) and shall continue to so hold in excess of this amount during the life of and for account of our drafts, #2753 to #2756 inclusive, for Twenty-five thousand dollars (\$25,000.00) each, dated March 18th, 1918, payable ninety days after sight, drawn upon you, until same are fully paid.

"We hereby undertake to pay into your hands one day before the maturity of these drafts the amount required to retire them."

The question arises whether the bank is authorized to accept these drafts.

(a) on the ground that it is a domestic transaction and is secured at the time of acceptance by warehouse receipt or other similar document conveying and securing title to the bank, or

(b) on the ground that the drafts are drawn in a transaction which involves the export of goods.

The opinion of counsel on this question, in which the Board concurs, is as follows:

"It appears that certain dealers in staples who have a large domestic business are under contract to export food to the allies. The question has arisen to what extent and under what circumstances member banks may accept drafts or bills of exchange drawn by such dealers.

(1) Where the drafts are drawn in a domestic transaction, under Section 13 they must be accompanied by shipping documents or the bank must be secured at the time of acceptance by a warehouse receipt or other similar document conveying or securing title to the goods involved.

(2) Where the draft grows out of a particular transaction involving the export of goods the regulations of the Board require that the bill must have been drawn under a credit opened for the purpose of conducting or settling accounts resulting from such transaction.

In other words, it must appear that the bill is drawn and the proceeds are used in connection with the export transaction. The Federal reserve bank must be satisfied either by reference to the acceptance itself or otherwise that it is eligible for rediscount. Satisfactory evidence of the eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal reserve bank.

In the case under consideration it is assumed that the dealer is engaged in the purchase of goods for export and is purchasing the same character and class of goods for domestic use. Some difficulty may be encountered, therefore, in ascertaining whether the goods purchased in any particular transaction are to be used for export or for domestic consumption.

You have asked that consideration be given to the question of what evidence the accepting bank should require if the acceptance grows out of a transaction involving the export of goods and what form this evidence should take.

It is respectfully suggested that where the dealer desires to finance the purchase and sale of goods to be exported his contract with the bank should provide (a) that he has entered into a contract for the export of the goods of a fixed amount; (b) that the total amount of drafts drawn by him under the credit opened to finance the export of such goods shall at no time exceed the aggregate amount of the import or export transactions contracted for and in process of execution; (c) that the proceeds of drafts drawn against the

accepting bank under this credit are to be used in connection with the export contracts referred to, and that the proceeds of the sale of the goods exported will be applied in payment of the acceptances unless the dealer has in the meantime placed the bank in funds to meet them at maturity or has secured such acceptances by shipping documents, warehouse receipt or other similar document conveying and securing title to readily marketable staples.

Unless the dealer can and will assure the bank that the proceeds of the credit are to be used in an export transaction and that the proceeds of the goods exported are to be used to liquidate the acceptances, the dealer should be required to treat the bills as drawn in domestic transactions and the bank should require security provided by Section 13."

Please convey this information to accepting banks in your district.

Very truly yours,

Governor.