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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

January 6, 1919.

X-1350.

SUBJECT: REVISED REGULATIONS.

Dear Sir:

I inclose herewith for your confidential information tentative draft of revised regulations which the Board proposes to issue at an early date.

Before promulgating these regulations, however, the Board would be pleased to have such comments and criticisms regarding them as you may desire to make, and would suggest that you discuss them with the Governor and Counsel for your bank.

Please let us hear from you at your earliest convenience.

Very truly yours,

Governor.

Inclosure.

X-1350 a

Tentative Draft of Regulations A, B and C, Series 1919,
which relate to

- A. Rediscounts and Advances under Section 13.
- B. Open-Market Purchases of Bills of Exchange
and Acceptances.
- C. Acceptance by Member Banks of Drafts and Bills
of Exchange under Authority of Section 13.

Tentative revision of Regulation F, Series 1917, which relates to the exercise of trust powers by national banks, has already been forwarded to counsel for Federal Reserve banks, with explanatory memoranda prepared by Counsel for the Federal Reserve Board. A copy of this memoranda and proposed regulation is sent for your information.

It is not contemplated that any material changes will be made in Regulations D, E, H, I and J, though they may be changed somewhat in form.

These regulations are now in the hands of the Board Members for consideration, but have not yet been considered by the Board.

DEFINITIONS.

The following terms which appear in the Federal Reserve Act, when used in these Regulations, are defined by the Federal Reserve Board as follows:

ACCEPTANCES.

A negotiable draft or bill of exchange payable otherwise than at sight or on demand, which has been accepted without qualification by the drawee.

AGRICULTURAL PURPOSE.

Shall include the use of the soil for planting seed, raising and harvesting crops, and the rearing, feeding and management of live stock.

BANKERS' ACCEPTANCES.

A draft or bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits.

BILLS OF EXCHANGE.

An unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay at a fixed or determinable future time, a sum certain in money to order or to bearer.

COMMODITY PAPER.

A note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt covering approved and readily marketable, nonperishable staples properly insured.

BILLS OF EXCHANGE DRAWN AGAINST ACTUALLY EXISTING VALUES.

A bill of exchange discounted before acceptance may be treated as drawn against actually existing value only when it is accompanied by shipping documents, warehouse receipts, or other similar documents securing title to the goods sold. An accepted bill of exchange unaccompanied by shipping documents or other similar paper may be considered

as drawn against actually existing value if drawn against the drawee at the time of or within a reasonable time after the shipment or delivery of the goods sold. In this latter case there must be reasonable grounds to believe that the goods are in existence in the hands of the drawee either in their original form or in the shape of the proceeds of their sale.

BORROWER.

A person, firm, or corporation who receives from a member bank either in cash or by credit on the books of the member bank the funds or proceeds resulting from the negotiation of a note, draft, bill of exchange, unless the bill of exchange discounted or sold to the member bank is a bill of exchange drawn against actually existing value as defined in these Regulations.

DRAFTS.

See "Bills of Exchange".

GOODS.

Shall be construed to include goods, wares, merchandise or agricultural products, including live stock.

INDUSTRIAL.

Shall be construed as relating to manufacture or to the product of industrial labor.

ISSUED OR DRAWN.

A note may be said to be issued or a draft or bill of exchange to be drawn when it has been executed by the primary obligor and delivered to the obligee as an evidence of indebtedness. If the indebtedness arises out of an agricultural, industrial or commercial transaction it may be said to be issued or drawn for one of these purposes.

MUNICIPALITY.

Shall be construed to mean State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts.

NET FUNDED INDEBTEDNESS.

See Regulation - p _____

PROMISSORY NOTES.

An unconditional promise in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer.

PROCEEDS OF NOTES, DRAFTS, OR
BILLS OF EXCHANGE.

Shall be held to include the proceeds or funds received either in cash or by credit on account as a result of the first or original negotiation by the owner of the note, draft, or bill of exchange, after its execution and delivery as an evidence of indebtedness by the person primarily liable thereon.

SAVINGS ACCOUNTS .

See Regulation - p _____

TIME CERTIFICATE OF DEPOSIT .

See Regulation - p _____

TIME DEPOSITS - OPEN ACCOUNTS.

See Regulation - p _____

TRADE ACCEPTANCES .

A bill of exchange drawn by the seller on the purchase of goods sold and accepted by the purchaser.

REGULATION A.

REDISCOUNTS AND ADVANCES UNDER SECTION 13.

Statutory Requirements.Form.

An instrument to be eligible for rediscount under Section 13 must be in the form of a note, or of a draft, or bill of exchange, before or after acceptance.

Maturity.

Such notes, drafts or bills of exchange must mature within ninety days from date of rediscount, unless they are issued or drawn for agricultural purposes or are based on live stock, in which case they must mature within six months from date of rediscount.

Endorsement.

Notes, drafts, bills of exchange and acceptances rediscounted under this section, must bear the endorsement of at least one member bank, except that drafts accepted by member banks to furnish dollar exchange need not be endorsed unless the regulations of the Board so provide.

Character ofNotes, Drafts and Bills of ExchangeEligible for Rediscount.

A note, draft or bill of exchange to be eligible for rediscount under this section

- (a) Must have been issued or drawn for an agricultural, industrial or commercial purpose.
- (b) Its proceeds must have been used for one of such purposes; or
- (c) It must have been issued or drawn for the purpose of carrying or trading in bonds and notes of the Government of the United States.

It must not have been issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities except bonds and notes of the Government of the United States and must not cover merely investments.

Character of

Member Bank Acceptances

Eligible for Rediscount.

Any draft or bill of exchange drawn (a) in a domestic transaction, (b) in a transaction involving the importation or exportation of goods, or (c) to furnish dollar exchange, which is legally accepted by a member bank, is eligible for rediscount with a Federal Reserve Bank.

Limitations on

Amount of Notes, Drafts, and Bills of Exchange

that may be rediscounted.

There is no limitation on the aggregate amount of notes, drafts and bills of exchange that may be rediscounted for any one bank, but the notes, drafts or bills of exchange (except "bills of exchange drawn against actually existing value") bearing the signature or endorsement of any one borrower rediscounted for any one bank must in no case exceed in the aggregate, an amount equal to ten per cent. of the capital and surplus of the member bank.

Regulations.

Form.

The term "notes, drafts and bills of exchange" is held to include commodity paper and trade acceptances as defined in these regulations. All instruments rediscounted by any Federal Reserve bank must be in

(A)

negotiable form, must have a definite and fixed maturity, (that is, must not be payable at sight or on demand) and must conform in all respects to the statutory requirements of Section 13 as enumerated and defined in these regulations.

Applications for Rediscount.

All applications for rediscount must contain a certificate of an executive officer of the member bank to the effect that to the best of his knowledge, information or belief, the instruments offered for rediscount conform to the requirements of the Statute and to the regulations of the Board.

Evidence of Eligibility.

In addition to certificate of eligibility filed with or as part of the application for rediscount, each member bank when so required, must furnish to the Federal Reserve bank satisfactory evidence of eligibility of any note, draft or bill of exchange offered for rediscount. To this end it should require its customers, either by notation on the instrument itself, or by collateral statements, to show for what purpose the instrument was "issued or drawn" or for what purpose its "proceeds were used".

Where the customer is engaged in an agricultural, industrial or commercial business, a financial statement of such customer showing an excess of quick assets over current liabilities may be accepted as evidence of the fact that the proceeds of the instrument negotiated were used for such purposes. Unless such instrument was "issued or drawn" as defined in these regulations for an agricultural, industrial or commercial

purpose, its eligibility shall be determined by the use made of its "pro-

ceeds" as herein defined.

Advances to Member Banks.

(A)

Form.

Loans or advances may be made by Federal reserve banks to member banks on the promissory notes of the member bank.

Maturity.

Such notes must mature within fifteen days.

Collateral Security Required.

They must be secured either by notes, drafts, bills of exchange or acceptances eligible for rediscount under Section 13, by bills of exchange or bankers acceptances eligible for purchase under Section 14, or by bonds or notes of the United States.

REGULATION B.

OPEN MARKET PURCHASES OF BILLS OF EXCHANGE
AND ACCEPTANCES.Statutory Requirements.Form.

Negotiable instruments purchased under authority of Section 14 of the Federal Reserve Act may be in the form of bills of exchange or acceptances but cannot be in the form of promissory notes.

Maturity.

The maturity of bills of exchange or acceptances purchased should conform to the requirements of Regulation A.

Endorsement.

Such bills of exchange or acceptances may be purchased with or without the endorsement of a member bank.

Character ofBills of Exchange and AcceptancesEligible for Purchase.

Bills of exchange and acceptances including drafts drawn against and accepted by member banks, may be purchased in the open market if they conform in all respects to the requirements of Section 13 and of Regulation A.

Drafts drawn against and accepted by non-member banks or bankers may likewise be purchased under authority of this Section if they meet the requirements of a banker's acceptance as defined in these regulations.

REGULATION C.

ACCEPTANCE BY MEMBER BANKS OF DRAFTS AND BILLS
OF EXCHANGEStatutory Authority.

National banks (and other member banks located in States, the laws of which expressly confer upon them all the powers and privileges of member banks) are authorized to accept drafts and bills of exchange

- (a) Which grow out of transactions involving the importation or exportation of goods;
- (b) Which grow out of transactions involving the domestic shipment of goods;
- (c) Which are secured at the time of acceptance by warehouse receipt or other such document, conveying or securing title to readily marketable staples;
- (d) Which are drawn under regulations prescribed by the Federal Reserve Board by banks or bankers in foreign countries, dependencies or insular possessions of the United States, for the purpose of furnishing dollar exchange.

Member banks, other than those above mentioned may accept drafts and bills of exchange to the extent permitted by the laws of the State under which they are organized.

For convenience, drafts or bills described in paragraph (a) will be referred to as foreign bills; those described in (b) and (c) will be referred to as domestic bills, and those described in (d) will be referred to as dollar exchange drafts.

Limitations on Aggregate Amount of Drafts and
Bills of Exchange that may be Accepted.

The aggregate of domestic and foreign bills accepted by any member bank must not exceed an amount equal to fifty per cent. of the capital and surplus of the accepting bank unless the consent of the Federal Reserve Board to accept a larger amount has first been obtained. With the consent of the Federal Reserve Board, the member bank may accept drafts of the character described to an amount which does not exceed one hundred per cent. of the capital and surplus of the accepting bank but the amount of domestic bills accepted must in no case exceed fifty per cent. of the capital and surplus.

In addition to the foregoing, a member bank may accept dollar exchange drafts to an amount which does not exceed fifty per cent. of its capital and surplus.

Limitations on Amount that may be accepted for
any one person, company, firm or corporation.

No member bank is permitted to accept for any one person, company, firm or corporation, either domestic or foreign bills in an amount equal to more than ten per cent. of its capital and surplus, unless the bank is secured by attached documents or by some other actual security growing out of the same transaction as the acceptance. Even though thus secured no member bank is permitted to accept for the same person, company, firm or corporation, in an amount in excess of fifty per cent. of its capital and surplus.

No member bank is permitted to accept dollar exchange drafts for any one bank in an amount exceeding ten per cent. of its capital and surplus.

Regulations.

Drafts Drawn in Transactions Involving the Importation
or Exportation of Goods.

Where a member bank accepts drafts drawn in transactions involving the importation or exportation of goods, it must have on file an agreement or guarantee from the customer for whom the drafts are accepted, containing provisions to the following effect

- (a) That such customer has an agreement that necessarily involves the exportation or importation of the goods and that the proceeds of the sale of the acceptance will be used in a transaction directly connected with such importation or exportation.
- (b) That the proceeds of the sale of the goods imported or exported will be used to pay the acceptance at maturity or to pay a renewal thereof within six months from the date of the original acceptance.

Drafts Drawn in Domestic Transactions.

A member bank accepting a draft drawn in a domestic transaction must be secured at the time of acceptance by shipping documents or by warehouse receipt or other similar document, conveying or securing to the bank title to readily marketable staples. If the drafts accepted for one customer exceed in amount ten per cent. of the capital and surplus of the accepting bank, the security must not be released during the life of the drafts. Where the aggregate of the drafts is less than ten per cent. the accepting bank may release the security upon the execution by the customer of a trust receipt therefor or of an agreement that there will be deposited with the bank so much of the proceeds of the sale of the goods represented by the security as may be necessary to pay the draft at maturity.

This agreement must be entered into with the customer for whom the draft is accepted and to whom the security is released whether or not such customer's name appears on the draft as drawer or endorser.

Drafts Drawn to Furnish Dollar Exchange.

Where the Federal Reserve Board has by general or special ruling determined that the usage of trade in any foreign country or in any dependency or insular possession of the United States, makes it necessary or advisable for banks or bankers located therein to draw drafts on member banks of the Federal Reserve System to furnish dollar exchange, any member bank, so long as such ruling is in force, may accept such drafts subject to the limitations and requirements of this regulation. Upon application of any member bank a list will be furnished of the countries, dependencies or insular possessions from which such drafts may be drawn.