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FEDERAL RESERVE BOARD
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ADDRESS REPLY TO
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 R. G. EMERSON, ASSISTANT SECRETARY
 W. M. INLAY, FISCAL AGENT

August 21, 1920

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Subject: Regulations, Series of 1920.

Dear Sir:-

The Federal Reserve Board transmits herewith a copy of the preliminary draft of its new Regulations, Series of 1920. This draft is being submitted to all Federal Reserve Banks and to members of the Federal Advisory Council for such suggestions as they may care to make.

The Regulations in the new series will amend and supersede the corresponding Regulations now in effect, all of which were issued in 1917 with the exceptions of Regulation F relating to "Trust Powers of National Banks" which was issued in 1919 and Regulation K, relating to "Banking Corporations authorized to do Foreign Banking Business under the terms of Section 25 (a) of the Federal Reserve Act", which was issued in March of the present year.

Regulations A, B, and I of the new series have been materially amended. For the convenience of those interested in studying the amendments to these particular Regulations mimeographed copies are enclosed showing the new matter in capital type.

The only changes in Regulation C, relating to "Acceptances by Member Banks of Drafts and Bills of Exchange", are the substitution of the word "remains" for the word "is" in the twelfth line of the first paragraph and the insertion after the sentence ending with the word "acceptance" of a sentence reading as follows:

A trust receipt which permits the customer to have access to or control over the goods will not be considered by Federal Reserve Banks to be "actual security" within the meaning of these regulations. A bill of lading draft, however, is "actual security" even after the documents have been released, provided, that the draft is accepted by the drawee upon or before the surrender of the documents.

The only change in Regulation D, relating to "Time Deposits and Savings Accounts", is the insertion of the words "which must be" after the word "notice" and before the word "given" in the next to the last line of the second paragraph relating to "Time Deposits, Open Accounts", and the insertion of the words "which the bank may at its option require to be" between the word "notice" and the word "given" in subdivision (c) of the last paragraph relating to "Time Certificates of Deposit".

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Regulation H, relating to "Membership of State Banks and Trust Companies" has not been changed except by adding to the last sentence the words "and shall be made on Form 105, which is made a part of this regulation."

Regulation J, relating to "Check Clearing and Collection" has not been changed except by the elimination of the last paragraph, numbered 10. The Board does not think it advisable to consider at the present time other changes in this Regulation, although it is realized that the Regulation in its present form does not fully indicate the clearing and collection functions now performed by Federal Reserve Banks. The Board believes that a more appropriate time to make further changes in this Regulation will be after the litigation pending in the Atlanta District has been terminated and after Congress has indicated what action it will take along the line of the Board's suggestion, contained in its letter of May 5, 1920, addressed to the Chairman of the Banking and Currency Committee of the House of Representatives, that Congress, by means of additional legislation, define its attitude toward the Federal Reserve par collection.

Regulation K is identically the same as Regulation K, Series of 1920, referred to above as having been issued in March of the present year, except that the word "correspondents" has been inserted at the beginning of the fourth line of Topic XIV relating to "Deposits".

Regulations E and F are identically the same as the corresponding Regulations issued in 1917 and 1919 respectively.

The Federal Reserve Board regards the issuance of the new series of Regulations as a matter of great importance to Federal Reserve Banks, member banks and the public generally. The Board will be glad to consider suggestions and invites those interested to give the matter careful study with a view to giving the Board the benefit of their views as promptly as possible. For the convenience of the Board in considering the suggestions made, it is requested that the letters addressed to the Board upon this subject be sent in duplicate.

Yours very truly,

Enclosure.

Governor.

To Governors of Federal Reserve Banks, Federal Reserve Agents,
Members of Federal Advisory Council.

REGULATION A
Series of 1926
(Superseding Regulation A of 1917).

DRAFT SHOWING NEW MATTER
IN CAPITALS.

REDISCOUNTS UNDER SECTION 13.

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A.

NOTES, DRAFTS, AND BILLS OF EXCHANGE.

1. General Statutory Provisions.

Any Federal Reserve Bank may discount for any of its member banks any note, draft, or bill of exchange provided -

(a) It has a maturity at the time of discount of not more than 90 days, exclusive of days of grace; but if drawn or issued for agricultural purposes or based on live stock, it may have a maturity at the time of discount of not more than six months, exclusive of days of grace.

(b) It arose out of actual commercial transactions; that is, it must be a note, draft, or bill of exchange which has been issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes.

(c) It was not issued for carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.

(d) The aggregate of notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm or corporation rediscounted for any one member bank WHETHER STATE OR NATIONAL shall at no time exceed 10 per cent (SEE NOTE A) of the unimpaired capital and surplus of such bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

(e) It is endorsed by a member bank.

(f) It conforms to all applicable provisions of this regulation.

NO FEDERAL RESERVE BANK MAY DISCOUNT FOR ANY MEMBER STATE BANK OR TRUST COMPANY ANY OF THE NOTES, DRAFTS, OR BILLS OF ANY ONE BORROWER WHO IS LIABLE FOR BORROWED MONEY TO SUCH STATE BANK OR TRUST COMPANY IN AN AMOUNT GREATER THAN 10 PER CENT. *(SEE NOTE B.) OF THE CAPITAL AND SURPLUS OF THAT STATE BANK OR TRUST COMPANY, BUT IN DETERMINING THE AMOUNT OF MONEY BORROWED FROM SUCH STATE BANK OR TRUST COMPANY THE DISCOUNT OF BILLS OF EXCHANGE DRAWN IN GOOD FAITH AGAINST ACTUALLY EXISTING VALUES SHALL NOT BE INCLUDED.

ANY FEDERAL RESERVE BANK MAY MAKE ADVANCES TO ITS MEMBER BANKS ON THEIR PROMISSORY NOTES FOR A PERIOD NOT EXCEEDING 15 DAYS, PROVIDED THAT THEY ARE SECURED BY NOTES, DRAFTS, BILLS OF EXCHANGE, OR BANKERS ACCEPTANCES WHICH ARE ELIGIBLE FOR REDISCOUNT OR FOR PURCHASE BY FEDERAL RESERVE BANKS, OR BY THE DEPOSIT OR PLEDGE OF BONDS OR NOTES OF THE UNITED STATES, OR BONDS OF THE WAR FINANCE CORPORATION.

*Note A. UNDER THE TERMS OF SECTION 11 (m) AS AMENDED BY THE ACT OF MARCH 3, 1919, A FEDERAL RESERVE BANK MAY, UNTIL DECEMBER 31, 1920, REDISCOUNT FOR ANY MEMBER BANK, WHETHER STATE OR NATIONAL, NOTES, DRAFTS, AND BILLS BEARING THE SIGNATURE OR INDORSEMENT OF ANY ONE BORROWER IN AN AMOUNT NOT TO EXCEED 20 PER CENT, OF THE MEMBER BANK'S CAPITAL AND SURPLUS, PROVIDED THAT THE EXCESS OVER AND ABOVE 10 PER CENT, BE SECURED BY BONDS OR NOTES OF THE UNITED STATES ISSUED SINCE APRIL 24, 1917, OR BY CERTIFICATES OF INDEBTEDNESS OF THE UNITED STATES.

*Note B. UNDER THE TERMS OF SECTION 11 (m) AS AMENDED BY THE ACT OF MARCH 3, 1919, A FEDERAL RESERVE BANK MAY UNTIL DECEMBER 31, 1920, REDISCOUNT FOR A MEMBER STATE BANK OR TRUST COMPANY PAPER OF ANY ONE BORROWER SECURED BY NOT LESS THAN A LIKE FACE AMOUNT OF BONDS OR NOTES OF THE UNITED STATES ISSUED SINCE APRIL 24, 1917, OR CERTIFICATES OF INDEBTEDNESS OF THE UNITED STATES, EVEN THOUGH SUCH STATE BANK OR TRUST COMPANY MAY ALREADY HAVE LOANED TO THE BORROWER UNDER HIS REGULAR LINE OF CREDIT IN EXCESS OF THE TEN PER CENT LIMIT DEFINED ABOVE. IF, HOWEVER, THE MEMBER STATE BANK OR TRUST COMPANY HAS LOANED TO ONE BORROWER IN EXCESS OF THAT TEN PER CENT LIMIT UNDER HIS REGULAR LINE OF CREDIT THE FEDERAL RESERVE BANK CANNOT REDISCOUNT FOR THAT STATE BANK OR TRUST COMPANY ANY OF THE PAPER OF THAT BORROWER TAKEN UNDER THAT REGULAR LINE OF CREDIT BUT MAY REDISCOUNT ANY PAPER SECURED BY GOVERNMENT OBLIGATIONS OF THE KINDS SPECIFIED UP TO AN AMOUNT NOT IN EXCESS OF TWENTY PER CENT OF THE CAPITAL AND SURPLUS OF SUCH STATE BANK OR TRUST COMPANY.

11. General Character of Notes, Drafts, and Bills of Exchange Eligible.

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for rediscount at a Federal Reserve Bank has determined that -

- (a) It must be a note, draft, or bill of exchange the proceeds of which have been used or are to be used IN THE FIRST INSTANCE in producing, purchasing, carrying, or marketing goods ** in one or more of the steps of the process of production, manufacture, or distribution. (Note.)
- (b) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery.
- (c) It must not be a note, draft or bill of exchange the proceeds of which have been used or are to be used for investments of a purely speculative character OR FOR THE PURPOSE OF LENDING TO SOME OTHER BORROWER.
- (d) It may be secured by the pledge of goods or collateral WHICH IS INELIGIBLE FOR REDISCOUNT, provided it, THE NOTE, DRAFT, OR BILL OF EXCHANGE, is otherwise eligible.

III. Application for Rediscount.

All applications for the rediscount of notes, drafts or bills of exchange must contain a certificate of the member bank, in form to be prescribed by the Federal Reserve Bank, that, to the best of its knowledge and belief, such notes, drafts, or bills of exchange have been issued for one or more of the purposes mentioned in 11 (a), AND, IN THE CASE OF A MEMBER STATE BANK OR TRUST COMPANY, ALL APPLICATIONS MUST CONTAIN A CERTIFICATE OF GUARANTY TO THE EFFECT THAT THE BORROWER IS NOT LIABLE, AND WILL NOT BE PERMITTED TO BECOME LIABLE DURING THE TIME HIS PAPER IS HELD BY THE FEDERAL RESERVE BANK, TO SUCH BANK OR TRUST COMPANY FOR BORROWED MONEY IN AN AMOUNT GREATER THAN THAT SPECIFIED IN 1 ABOVE.

**** Note.** When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

IV. Promissory Notes

(a) Definition. A promissory note, within the meaning of this regulation is defined as 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.

(b) Evidence of eligibility and requirement of statements. A Federal Reserve Bank must be satisfied by reference to the note or otherwise that it is eligible for rediscount. Compliance of a note with II(b) may be evidenced by a statement of the borrower showing a reasonable excess of quick assets over current liabilities, BUT FAILURE TO SHOW SUCH AN EXCESS DOES NOT OF ITSELF NECESSARILY PRECLUDE ELIGIBILITY. The member bank shall certify in its application whether the note offered for rediscount has been discounted for a depositor or another member bank or whether it has been purchased from a nondepositor. It must also certify whether a financial statement of the borrower is on file.

Such financial statements must be on file with respect to all notes offered for rediscount which have been purchased from sources other than a depositor or a member bank. With respect to any other note offered for rediscount, if no statement is on file, a Federal Reserve Bank shall use its discretion in taking the steps necessary to satisfy itself as to eligibility. It is authorized to waive the requirement of a statement with respect to any note discounted by a member bank for a depositor or another member bank -

- (1) If it is secured by a warehouse, terminal, or other similar receipt covering goods in storage;
- (2) If the aggregate of obligations of the borrower re-discounted and offered for rediscount at the Federal Reserve Bank is less than a sum equal to 10 per cent. of the paid-in capital of the member bank and does not exceed \$5,000.

V. Drafts, Bills of Exchange and Trade Acceptances.

(a) Definition - A draft or bill of exchange, within the meaning of this regulation is defined as an unconditional order in writing, addressed by one person to another, other than a banker as defined under B (b), signed by the person giving it, requiring the person to whom it is addressed, to pay in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person; and a trade acceptance is defined as a draft or bill of exchange drawn by the seller on the purchaser of goods sold* and accepted by such purchaser.

*Note: A CONSIGNMENT OF GOODS OR A CONDITIONAL SALE OF GOODS CANNOT BE CONSIDERED "GOODS SOLD" WITHIN THE MEANING OF THIS CLAUSE, BUT THE PURCHASE PRICE OF GOODS PLUS THE COST OF LABOR IN EFFECTING THEIR INSTALLATION MAY BE INCLUDED IN THE AMOUNT FOR WHICH THE TRADE ACCEPTANCE IS DRAWN.

(b) Evidence of eligibility. - A Federal Reserve Bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the draft or bill offered for rediscount, unless it presents prima facie evidence thereof or bears a stamp or certificate affixed by the acceptor or drawer showing that it is a trade acceptance.

VI. Six Months' Agricultural Paper.

(a) Definition. - Six months' agricultural paper, within the meaning of this regulation, is defined as a note, draft, bill of exchange, or trade acceptance drawn or issued for agricultural purposes, or based on live stock; that is, a note draft, bill of exchange, or trade acceptance the proceeds of which have been used, or are to be used for agricultural purposes, including the breeding, raising, fattening, or marketing of live stock, and which has a maturity at the time of discount of not more than six months, exclusive of days of grace.

(b) Eligibility. - To be eligible for rediscount six months' agricultural paper, whether a note, draft, bill of exchange or trade acceptance, must comply with the respective sections of this regulation which would apply to it if maturity were 90 days or less.

BANKERS' ACCEPTANCES.

(A) DEFINITION. - A BANKER'S ACCEPTANCE WITHIN THE MEANING OF THIS REGULATION IS DEFINED AS A DRAFT OR BILL OF EXCHANGE OF WHICH THE ACCEPTOR IS A BANK OR TRUST COMPANY, OR A FIRM, PERSON, COMPANY OR CORPORATION ENGAGED GENERALLY IN THE BUSINESS OF GRANTING BANKERS' ACCEPTANCE CREDITS.

(B) ELIGIBILITY. - TO BE ELIGIBLE FOR REDISCOUNT, THE BILL WHICH MUST HAVE A MATURITY AT TIME OF PURCHASE OF NOT MORE THAN THREE MONTHS, EXCLUSIVE OF DAYS OF GRACE, MUST HAVE BEEN DRAWN UNDER A CREDIT OPENED FOR THE PURPOSE OF CONDUCTING OR SETTLING ACCOUNTS RESULTING FROM A TRANSACTION OR TRANSACTIONS INVOLVING ANY ONE OF THE FOLLOWING CASES:

- (1) THE SHIPMENT OF GOODS BETWEEN THE UNITED STATES AND ANY FOREIGN COUNTRY, OR BETWEEN THE UNITED STATES AND ANY OF ITS DEPENDENCIES OR INSULAR POSSESSIONS, OR BETWEEN FOREIGN COUNTRIES. WHILE IT IS NOT NECESSARY THAT SHIPPING DOCUMENTS COVERING GOODS IN THE PROCESS OF SHIPMENT BE ATTACHED TO DRAFTS DRAWN FOR THE PURPOSE OF FINANCING THE EXPORTATION OR IMPORTATION OF GOODS, AND WHILE IT MAY NOT BE ESSENTIAL, THEREFORE, THAT EACH SUCH DRAFT COVER SPECIFIC GOODS ACTUALLY IN EXISTENCE AT THE TIME OF ACCEPTANCE, NEVERTHELESS IT IS ESSENTIAL AS A PREREQUISITE TO ELIGIBILITY EITHER THAT A BILL OF LADING OR DOCUMENTARY DRAFT DRAWN UPON THE BUYER OF GOODS BE ATTACHED AT THE TIME THE BANK DRAFT IS PRESENTED FOR ACCEPTANCE, OR, IN THE EVENT THAT THE GOODS COVERED BY THE CREDIT HAVE NOT BEEN ACTUALLY SHIPPED, THAT THERE BE IN EXISTENCE A SPECIFIC AND BONA FIDE CONTRACT BETWEEN THE CUSTOMER AND SOME INDEPENDENT THIRD PARTY, PROVIDING FOR THE EXPORTATION OR IMPORTATION AT OR WITHIN A SPECIFIED TIME OF THE GOODS TO BE FINANCED BY THE CREDIT. IT IS NOT ENOUGH THAT THE CUSTOMER AGREE WITH THE BANK THAT THE PROCEEDS OF THE ACCEPTANCE WILL BE USED ONLY TO FINANCE THE PURCHASE OR SHIPMENT OF GOODS TO BE EXPORTED OR IMPORTED AND FOR NO OTHER PURPOSE.
- (2) THE SHIPMENT OF GOODS WITHIN THE UNITED STATES, PROVIDED SHIPPING DOCUMENTS CONVEYING OR SECURING TITLE ARE ATTACHED AT THE TIME OF ACCEPTANCE, OR
- (3) THE STORAGE OF READILY MARKETABLE STAPLES, PROVIDED THAT THE BILL IS SECURED AT THE TIME OF ACCEPTANCE BY A WAREHOUSE, TERMINAL, OR OTHER SIMILAR RECEIPT, AND PROVIDED FURTHER THAT THE BILL REMAINS SECURED THROUGHOUT ITS LIFE. IN THE EVENT THAT THE GOODS MUST BE WITHDRAWN FROM STORAGE PRIOR TO THE MATURITY OF THE ACCEPTANCE FOR DISPOSAL IN SOME MANNER CONTEMPLATING A LIQUIDATION OF THE CREDIT, A TRUST RECEIPT OR OTHER SUCH DOCUMENT COVERING THE GOODS AND GIVING THE BANK AN EQUITY IN THE GOODS OR THEIR PROCEEDS MAY BE SUBSTITUTED IN LIEU OF THE ORIGINAL SECURITY, PROVIDED THAT SUCH SUBSTITUTION IS CONDITIONED UPON A REASONABLY IMMEDIATE LIQUIDATION OF THE CREDIT. IN ORDER TO INSURE COMPLIANCE WITH THIS CONDITION FEDERAL RESERVE BANKS MAY REQUIRE, WHEN THE ORIGINAL DOCUMENT IS RELEASED, EITHER (A) THAT THE PROCEEDS OF THE GOODS WILL BE APPLIED WITHIN A SPECIFIED TIME TOWARDS A LIQUIDATION OF THE ACCEPTANCE CREDIT OR (B) THAT A NEW DOCUMENT, SIMILAR TO THE ORIGINAL ONE, WILL BE RESUBSTITUTED WITHIN A SPECIFIED TIME.

ANY BILL DRAWN BY A BANK OR BANKER IN A FOREIGN COUNTRY OR DEPENDENCY OR INSULAR POSSESSION OF THE UNITED STATES FOR THE PURPOSE OF FURNISHING DOLLAR EXCHANGE, AS PROVIDED IN REGULATION C IS ELIGIBLE FOR REDISCOUNT PROVIDED THAT IT HAS A MATURITY AT THE TIME OF REDISCOUNT OF NOT MORE THAN THREE MONTHS, EXCLUSIVE OF DAYS OF GRACE.

IN ORDER TO BE ELIGIBLE, ACCEPTANCES FOR ANY ONE CUSTOMER IN EXCESS OF 10 PER CENT OF THE CAPITAL AND SURPLUS OF THE ACCEPTING BANK MUST REMAIN SECURED THROUGHOUT THE LIFE OF THE ACCEPTANCE EITHER BY SHIPPING DOCUMENTS, WAREHOUSE RECEIPTS, OR OTHER SUCH DOCUMENTS COVERING READILY MARKETABLE STAPLES, OR BY SOME OTHER ACTUAL SECURITY GROWING OUT OF THE SAME TRANSACTION AS THE ACCEPTANCE, SUCH AS DOCUMENTARY DRAFTS, TRADE ACCEPTANCES, TERMINAL RECEIPTS, OR TRUST RECEIPTS WHICH DO NOT PERMIT THE BORROWER TO HAVE ACCESS TO OR CONTROL OVER THE GOODS.

MATURITY.- ALTHOUGH A FEDERAL RESERVE BANK MAY LEGALLY REDISCOUNT (OR PURCHASE) AN ACCEPTANCE HAVING A MATURITY OF NOT MORE THAN 90 DAYS AT THE TIME OF DISCOUNT, EACH FEDERAL RESERVE BANK MAY DECLINE TO REDISCOUNT (OR PURCHASE) ANY ACCEPTANCE THE MATURITY OF WHICH IS IN EXCESS OF THE USUAL OR CUSTOMARY PERIOD OF CREDIT REQUIRED TO COMPLETE THE UNDERLYING TRANSACTION OR WHICH IS IN EXCESS OF THAT PERIOD REASONABLY NECESSARY TO FINANCE THE TRANSACTION. SINCE THE PURPOSE OF PERMITTING THE ACCEPTANCE OF DRAFTS SECURED BY WAREHOUSE RECEIPTS OR OTHER SUCH DOCUMENTS IS TO PERMIT OF THE TEMPORARY HOLDING OF READILY MARKETABLE STAPLES IN STORAGE PENDING A REASONABLY IMMEDIATE SALE, SHIPMENT, OR DISTRIBUTION, NO SUCH ACCEPTANCE SHOULD HAVE A MATURITY IN EXCESS OF THE TIME NECESSARY TO EFFECT A REASONABLY IMMEDIATE SALE, SHIPMENT OR DISTRIBUTION INTO THE PROCESS OF MANUFACTURE OR CONSUMPTION.

ACCEPTANCE CREDITS. - WHILE A NATIONAL BANK MAY PROPERLY ENTER INTO AN AGREEMENT HAVING MORE THAN SIX MONTHS TO RUN BY WHICH IT OBLIGATES ITSELF TO ACCEPT DRAFTS DRAWN UPON IT, EACH INDIVIDUAL DRAFT ACCEPTED UNDER THE TERMS OF THAT AGREEMENT MUST CONFORM IN ALL RESPECTS TO THE PROVISIONS OF THE LAW AND THESE REGULATIONS. NO SUCH ACCEPTANCE AGREEMENT, HOWEVER, SHOULD BE OF SUCH A CHARACTER AS TO IMPOSE UPON THE HOLDER OF DRAFTS ACCEPTED UNDER THAT AGREEMENT, ANY OBLIGATION INCONSISTENT WITH ITS PAYMENT IN DOLLARS UPON THE SPECIFIED MATURITY. INASMUCH AS EACH INDIVIDUAL ACCEPTANCE MUST ITSELF CONFORM TO THE TERMS OF THE LAW, NO RENEWAL DRAFT, WHETHER OR NOT CONTRACTED FOR IN ADVANCE, CAN BE ELIGIBLE IF AT THE TIME OF ITS ACCEPTANCE THE PERIOD REQUIRED FOR THE CONCLUSION OF THE TRANSACTION OUT OF WHICH THE ORIGINAL DRAFT WAS DRAWN SHALL HAVE ELAPSED. THE FEDERAL RESERVE BOARD MAY BE ABLE TO RULE IN ADVANCE AS TO THE ELIGIBILITY OF RENEWAL DRAFTS IN CASES WHERE IT IS PRACTICABLE AT THE TIME THE ORIGINAL DRAFT IS DRAWN TO FORETELL WITH SUBSTANTIAL CERTAINTY THE CONDITIONS WHICH WILL EXIST AT THE TIME THE RENEWAL DRAFT IS TO BE DRAWN BUT IN CASES WHERE THAT IS NOT POSSIBLE THE QUESTION OF THE ELIGIBILITY OF RENEWAL DRAFTS MUST NECESSARILY DEPEND UPON THE STAGE OF THE TRANSACTION AT THE TIME THE RENEWAL DRAFTS ARE DRAWN.

(C) EVIDENCE OF ELIGIBILITY. A FEDERAL RESERVE BANK MUST BE SATISFIED, EITHER BY REFERENCE TO THE ACCEPTANCE ITSELF, OR OTHERWISE, THAT IT IS ELIGIBLE FOR REDISCOUNT. THE BILL ITSELF SHOULD BE DRAWN SO AS TO EVIDENCE THE CHARACTER OF THE UNDERLYING TRANSACTION, BUT IF IT IS NOT SO DRAWN SATISFACTORY EVIDENCE MAY CONSIST OF A STAMP OR CERTIFICATE AFFIXED BY THE ACCEPTOR IN FORM SATISFACTORY TO THE FEDERAL RESERVE BANK.

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OPEN-MARKET PURCHASES OF BILLS OF EXCHANGE, TRADE ACCEPTANCES,
AND BANKERS ACCEPTANCES UNDER SECTION 14.

Regulation B.
Series of 1920.

DRAFT SHOWING NEW
MATTER IN CAPITALS.

(Superseding Regulation B of 1917)

I. General Statutory Provisions.

Section 14 of the Federal Reserve Act permits Federal Reserve Banks under rules and regulations to be prescribed by the Federal Reserve Board to purchase and sell in the open market from banks, firms, corporations, or individuals, bankers' acceptances and bills of exchange of the kinds and maturities made eligible by the Act for rediscount, with or without the indorsement of a member bank.

II. General Character of Bills and Acceptances Eligible.

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, has determined that a bill of exchange or acceptance, to be eligible for purchase by Federal Reserve Banks under section 14 -

- (a) MUST CONFORM TO THE RELATIVE REQUIREMENTS OF REGULATION A.
- (b) MUST HAVE A MATURITY AT THE TIME OF PURCHASE OF NOT MORE THAN NINETY DAYS, EXCLUSIVE OF DAYS OF GRACE, BUT NEED NOT AT THE DISCRETION OF THE FEDERAL RESERVE BANK, BE INDORSED BY A MEMBER BANK.
- (c) Must have been accepted by the drawee prior to purchase by a Federal Reserve Bank unless it is EITHER accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt conveying security title OR BEARS A SATISFACTORY BANKING INDORSEMENT.
- (d) A BILL OF EXCHANGE, UNLESS INDORSED BY A MEMBER BANK, IS NOT ELIGIBLE FOR PURCHASE UNTIL A SATISFACTORY STATEMENT HAS BEEN FURNISHED OF THE FINANCIAL CONDITION OF ONE OR MORE OF THE PARTIES THERETO.

A BANKERS' ACCEPTANCE, UNLESS ACCEPTED OR INDORSED BY A MEMBER BANK, IS NOT ELIGIBLE FOR PURCHASE UNTIL THE ACCEPTOR HAS FURNISHED A SATISFACTORY STATEMENT OF ITS FINANCIAL CONDITION IN FORM TO BE APPROVED BY THE FEDERAL RESERVE BANK AND HAS AGREED IN WRITING WITH A FEDERAL RESERVE BANK TO INFORM IT UPON REQUEST CONCERNING THE TRANSACTION UNDERLYING THE ACCEPTANCE.

Regulation I.
Series of 1920.
(Superseding Regulation I of 1917)

INCREASE OR DECREASE OF CAPITAL STOCK OF FEDERAL RESERVE
BANKS AND CANCELLATION OF OLD AND ISSUE OF NEW STOCK
CERTIFICATES.

Increase of Capital Stock.

Whenever the capital stock of any Federal Reserve Bank shall be increased by new banks becoming members, or by the increase of PAID-UP capital or surplus of any member bank and the allotment of additional capital stock to such bank, OR BY THE CONSOLIDATION OF A MEMBER BANK WITH ANY OTHER BANK OR BANKS, MEMBER OR NONMEMBER, UNDER THE CHARTER OF ONE OF THE CONSOLIDATING MEMBER BANKS, THE CAPITAL AND SURPLUS OF THE CONSOLIDATED BANK BEING IN EXCESS OF THE AGGREGATE CAPITAL AND SURPLUS OF THE CONSOLIDATING MEMBER BANKS, AND THE ALLOTMENT OF ADDITIONAL STOCK TO SUCH CONSOLIDATED BANKS, the board of directors of such Federal Reserve Bank shall certify such increase to the Comptroller of the Currency on Form 58, which is made a part of this regulation. SUCH CERTIFICATIONS SHALL BE MADE QUARTERLY AS OF THE FIRST DAYS OF JANUARY, APRIL, JULY AND OCTOBER OF EACH YEAR.

Decrease of Capital Stock.

I. Whenever a member bank reduces its PAID-UP capital stock or surplus, and, in the case of reduction of THE PAID-UP capital OF A NATIONAL BANK, such reduction has been approved by the Comptroller of the Currency and by the Federal Reserve Board in accordance with the provisions of Section 23 of the Federal Reserve Act, it shall file with the Federal Reserve Bank of which it is a member an application FOR THE SURRENDER AND CANCELLATION OF STOCK on Form 60, which is made a part of this regulation. When this application has been approved BY THE FEDERAL RESERVE AGENT AND THE FEDERAL RESERVE BOARD the Federal Reserve Bank shall ACCEPT and cancel the STOCK WHICH THE APPLYING BANK IS ENTITLED TO SURRENDER AND SHALL refund to the member bank the proportionate amount due such bank on account of the STOCK cancelled.

II. Whenever a member bank shall be declared insolvent and a receiver appointed by the proper authorities, such receiver shall file with the Federal Reserve Bank of which the insolvent bank is a member an application on Form 87, which is made a part of this regulation, for the surrender and cancellation of the stock held by, and for the refund of all balances due to such insolvent member bank. Upon approval of this application by the Federal Reserve Agent AND THE FEDERAL RESERVE BOARD, the Federal Reserve Bank shall accept and cancel the stock surrendered, and shall adjust accounts between the member bank and the Federal Reserve Bank by applying to the indebtedness of the insolvent member bank to such Federal Reserve Bank all cash-paid subscriptions made by it on the stock canceled with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized receiver of such insolvent member bank.

III. Whenever a member bank goes into voluntary liquidation and a liquidating agent is appointed, such agent shall file with the Federal Reserve Bank of which it is a member an application on Form 86, which is made a part of this regulation, for the surrender and cancellation of the stock held by and for the refund of all balances due to such liquidating member bank. Upon approval of this application by the Federal Reserve Agent AND THE FEDERAL RESERVE BOARD, the Federal Reserve Bank shall accept and cancel the stock surrendered, and shall adjust accounts between the liquidating member bank and the Federal Reserve Bank by applying to the indebtedness of the liquidating member bank to such Federal Reserve Bank all cash-paid subscriptions made by it on the stock canceled with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized liquidating agent of such liquidating member bank.

IV. WHENEVER MEMBER BANKS CONSOLIDATE UNDER THE CHARTER OF ONE OF SUCH BANKS, (1) THE PAID-UP CAPITAL AND SUPPLUS OF THE CONSOLIDATED BANK BEING LESS THAN THE AGGREGATE PAID-UP CAPITAL AND SURPLUS OF THE CONSOLIDATING BANKS, THE CONSOLIDATED BANK SHALL FILE WITH THE FEDERAL RESERVE BANK OF WHICH IT IS A MEMBER, AN APPLICATION FOR THE SURRENDER AND CANCELLATION OF STOCK (SEE FORM _____, WHICH IS MADE A PART OF THIS REGULATION). UPON THE APPROVAL OF THIS APPLICATION BY THE FEDERAL RESERVE AGENT AND THE FEDERAL RESERVE BOARD, THE FEDERAL RESERVE BANK SHALL ACCEPT AND CANCEL THE STOCK WHICH THE APPLYING BANK IS ENTITLED TO SURRENDER, AND SHALL REFUND TO THE APPLYING BANK THE PROPORTIONATE AMOUNT DUE SUCH BANK ON ACCOUNT OF THE STOCK CANCELLED.

V. ALL REDUCTIONS OF THE CAPITAL STOCK OF A FEDERAL RESERVE BANK SHALL, IN ACCORDANCE WITH THE PROVISIONS OF SECTION 6 OF THE FEDERAL RESERVE ACT, BE CERTIFIED TO THE COMPTROLLER OF THE CURRENCY BY THE BOARD OF DIRECTORS OF SUCH FEDERAL RESERVE BANK ON FORM 59, WHICH IS MADE A PART OF THIS REGULATION. SUCH CERTIFICATIONS SHALL BE MADE QUARTERLY AS OF THE FIRST DAYS OF JANUARY, APRIL, JULY AND OCTOBER OF EACH YEAR.

CANCELLATION OF OLD AND ISSUE OF NEW STOCK CERTIFICATES

WHENEVER A MEMBER BANK CHANGES ITS NAME OR, BY CONSOLIDATION WITH ANOTHER MEMBER (1) BANK ACQUIRES THE FEDERAL RESERVE BANK STOCK PREVIOUSLY HELD BY SUCH OTHER MEMBER BANK, IT SHALL SURRENDER TO THE FEDERAL RESERVE BANK THE CERTIFICATE OF FEDERAL RESERVE BANK STOCK WHICH WAS ISSUED TO IT UNDER ITS OLD NAME, OR WHICH WAS ISSUED TO SUCH OTHER MEMBER BANK. THE CERTIFICATE SO SURRENDERED SHALL BE ENDORSED BY THE MEMBER BANK SURRENDERING IT OR BY THE MEMBER BANK TO WHICH IT WAS ORIGINALLY ISSUED AND SHALL BE

(1). THE ACT OF CONGRESS ENTITLED "AN ACT TO PROVIDE FOR THE CONSOLIDATION OF NATIONAL BANKING ASSOCIATIONS", APPROVED NOVEMBER 7, 1918, PERMITS NATIONAL BANKS TO CONSOLIDATE ONLY WITH THE APPROVAL OF THE COMPTROLLER OF THE CURRENCY.

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ACCOMPANIED BY PROPER PROOF OF THE CHANGE OF NAME OR CONSOLIDATION. UPON RECEIPT OF SUCH CERTIFICATE OF STOCK SO ENDORSED, TOGETHER WITH SUCH PROOF, THE FEDERAL RESERVE BANK SHALL CANCEL THE CERTIFICATE SO SURRENDERED AND SHALL ISSUE IN LIEU THEREOF TO AND IN THE NAME OF THE MEMBER BANK SURRENDERING IT A NEW CERTIFICATE FOR THE NUMBER OF SHARES REPRESENTED BY THE CERTIFICATE SO SURRENDERED, OR IF THE MEMBER BANK IS ENTITLED TO SURRENDER SOME OF THE STOCK WHICH IS REPRESENTED BY THE SURRENDERED CERTIFICATE, AND AN APPLICATION FOR THE SURRENDER AND CANCELLATION OF SUCH STOCK IS AT THE SAME TIME MADE IN ACCORDANCE WITH THIS REGULATION, THE NEW CERTIFICATE SHALL BE FOR THE NUMBER OF SHARES REPRESENTED BY THE SURRENDERED CERTIFICATE LESS THE NUMBER OF SHARES CANCELLED PURSUANT TO SUCH APPLICATION. ALL CASES WHERE CERTIFICATES OF STOCK ARE SURRENDERED AND NEW CERTIFICATES ISSUED IN LIEU THEREOF AND IN A DIFFERENT NAME SHALL BE REPORTED TO THE FEDERAL RESERVE BOARD BY THE FEDERAL RESERVE AGENT.