

FEDERAL RESERVE BOARD

WASHINGTON

X-3494

August 2, 1922

CONFIDENTIAL

SUBJECT: Special Rates on Commodity Paper.

Dear Sir:

It has been proposed that the Board revive the special rates on commodity paper which were first established during the year 1915. Before taking action, however, the Board is desirous of obtaining the opinion of the officers and executive committees of all Federal Reserve Banks as to the advisability of reestablishing special rates on commodity paper. There is enclosed herewith a tentative draft of a letter which it is proposed to send to all Federal Reserve Banks in case the Board should decide to authorize special rates on commodity paper; and your comments, criticisms and suggestions are invited. You are requested also to advise the Board whether your bank would feel disposed to establish a special rate on this class of paper and, if it should, whether in your opinion your member banks generally would be inclined to avail themselves of it.

Very truly yours,

G o v e r n o r .

(Enclosure)

TO ALL FEDERAL RESERVE AGENTS
COPIES TO GOVERNORS.

CONFIDENTIAL TENTATIVE DRAFT.

SUBJECT: Revival of Special Rates on Commodity Paper.

Dear Sir:

Prior to 1913 there were in effect at some of the Federal Reserve Banks special rates on so-called commodity paper. Section VII of Regulation A, Series of 1917, and earlier regulations, defined commodity paper and prescribed the conditions under which such paper would be eligible for rediscount by Federal Reserve Banks. All such special rates were suspended during November and December 1917 and the regulations issued since that time have not contained any special provisions regarding commodity paper.

The Board has considered the matter and has decided that it will, at the request of any Federal Reserve Bank, approve the establishment by the applying bank of a special rate of not less than $3\frac{1}{2}\%$ on commodity paper on which the rate of interest or discount - including commission - charged the borrower does not exceed 6% per annum.

The Board's definition of commodity paper, and the conditions of eligibility applicable to such paper are as follows:

Definition.- Commodity paper is defined as 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.

Eligibility.--To be eligible for rediscount at the special rates, authorized to be established for commodity paper, such a note, draft, bill of exchange, or trade acceptance must also comply with the respective sections of this Regulation A, Series of 1922, applicable to it, must conform to the requirements of the Federal Reserve Bank relating to shipping documents, receipts, insurance, etc., and must be a note, draft, bill of exchange, or trade acceptance on which the rate of interest or discount - including commission - charged the borrower, does not exceed 6 per cent per annum. Paper which is issued or drawn, or the proceeds of which have been or are to be used, for the speculative holding of commodities, as distinguished from the carrying of commodities pending the orderly marketing thereof, is not eligible for rediscount.

The foregoing definition and conditions of eligibility are substantially the same as those prescribed in the Board's former Regulation A, Series of 1917. In approving any special rate pursuant to this letter it should be understood that the Federal Reserve Board reserves the right, which it always reserved when it approved similar rates in the past, to suspend such rate whenever such a course seems desirable.

Very truly yours,

G o v e r n o r .