

FEDERAL RESERVE BOARD

WASHINGTON

X-3948
January 21, 1924.

SUBJECT: Discount of Sight and Demand Drafts
under Section 13, as Amended March
4, 1923.

Dear Sir:

For your information there is enclosed herewith, copy of a letter addressed by the Federal Reserve Board to one of the Federal Reserve Banks with regard to the discount of sight and demand bill of lading drafts under the provisions of the amendment of March 4, 1923, to section 13 of the Federal Reserve Act.

Yours very truly,

Walter L. Eddy,
Secretary.

(Enclosure)

TO ALL CHAIRMEN

January 16, 1924.

Dear Sir:

Receipt is acknowledged of your letter of October 22 raising certain questions concerning the proper construction of the amendment of March 4, 1923, to Section 13 of the Federal Reserve Act which authorizes Federal reserve banks to discount sight or demand drafts under certain circumstances. You state that in the opinion of the Federal Reserve Bank of [redacted] this amendment was passed for the purpose of moving raw agricultural products to market and that, since a commodity must be deemed to have reached a market when anything is done to it in the way of manufacture, the amendment covers only nonperishable, readily marketable, staple agricultural products moving in their raw state. You ask to be advised whether the Federal Reserve Bank of [redacted] has taken a correct position in this regard.

The proper construction of the term "nonperishable, readily marketable staple agricultural products" presents a difficult question. In its Regulation A, the Board has adopted a definition of the term "readily marketable staple", as used in Section 13 in connection with bankers' acceptances, and it has held that the question of perishability is fundamentally a question of fact which cannot properly be answered by the application of any general rule, but should be determined by a consideration of the facts and circumstances surrounding each particular case. The further question as to whether or not, or under what circumstances, a readily marketable, nonperishable staple should properly be considered an agricultural product, will, in many cases, be an extremely debatable question and it is doubtful if any rule can be laid down which will satisfactorily dispose of all cases.

In view of the complex and equivocal considerations involved, the Board is not prepared at this time to formulate a comprehensive definition of the broad term "nonperishable, readily marketable staple agricultural products", but deems it advisable for the present to rule upon questions involving the proper classification of particular commodities as they may be presented. After the Federal reserve banks have had a reasonable amount of practical experience in handling transactions arising in this connection, it may prove feasible to formulate a comprehensive ruling or statement of policy on this question which will properly interpret the law and be satisfactory from a practical standpoint.

The Board does not believe, however, that the term "nonperishable, readily marketable staple agricultural products" as used in the sight draft amendment under discussion, must be construed as limited to agricultural products in their raw state. While it seems probable that the primary intention of Congress in thus amending Section 13 was to facilitate the marketing of crops, it does not necessarily follow that Congress intended to legislate with reference solely to the movement of crops in their raw state. The language used contains no such limitation, but relates generally

to the shipment of agricultural products, and it is significant that the amendment passed at the same time which authorizes the discount of factors' paper expressly refers to "staple agricultural products in their raw state". A consideration of these two amendments which form part of the same legislative act is very persuasive that Congress did not intend to limit the application of the sight draft amendment to raw agricultural products. The Board feels, moreover, that a strict construction of this amendment would be out of harmony with the liberal purpose and intent of the Agricultural Credits Act as a whole.

The Board is of the opinion, therefore, that Federal reserve banks should not refuse to discount sight or demand bill of lading drafts merely because the agricultural products covered thereby are no longer in a technically raw state, but have passed through the initial stages of refinement or processing subsequent to their actual harvest. As you indicate in your letter, it is, of course, necessary that the line be drawn somewhere, but for the reasons stated above, the Board does not consider it proper to draw an arbitrary line which would include only commodities in their raw state within the scope of the provision authorizing the discount of sight and demand drafts. Pending the issuance of a comprehensive ruling or statement of policy on this subject, Federal reserve banks should use their discretion in passing upon the eligibility of bill of lading^{drafts}/offered for discount under this amendment, and the exercise of this discretion should be predicated upon a fair and reasonable distinction between agricultural and non-agricultural products and not necessarily upon the initial stages of refinement which an agricultural product may have reached in the course of its progress through the normal channels of distribution:

Yours very truly,

D. R. Crissinger
Governor.