

FEDERAL RESERVE BOARD

X-4693

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 13, 1926.

SUBJECT: TOPIC FOR THE GOVERNORS' CONFERENCE.

Dear Sir:

The Board has voted to place upon the program for the next conference of Governors the question whether the Board's Regulation A should be amended so as to make eligible for rediscount or purchase by Federal reserve banks a bankers' acceptance drawn by an elevator or warehouse company and secured by terminal warehouse receipts issued by the elevator or warehouse company that draws the draft.

For your information in connection with this matter there are enclosed herewith copies of certain correspondence and memoranda discussing this question.

Very truly yours,

Walter L. Eddy,
Secretary.

To all Governors.

August 23, 1926.

Mr. E. R. Kenzel,
Deputy Governor,
Federal Reserve Bank of New York,
New York City, New York.

Dear Mr. Kenzel:

I have your letter of August 20th with reference to bankers' acceptances drawn by an elevator or warehouse company and secured by terminal warehouse receipts of the company that draws the draft. You state that you assume that the Board's action in postponing the consideration of an amendment to Regulation A on this subject until after the next Governors' Conference would not necessarily preclude a ruling by the Board along the lines indicated in the last paragraph of Governor Young's letter to Mr. Eddy dated July 26th.

At the time when the Board decided to refer this matter to the next Governors' Conference it had under consideration not only the proposed amendment to Regulation A but also the proposal made in Governor Young's letter that the Board so interpret its present regulations as to make eligible the acceptances under consideration. The Board's action in deferring this matter was intended to include both of these proposals and consideration of the entire subject was postponed until the next Conference of Governors.

Very truly yours,

(signed) J. C. Noell,

J. C. Noell,
Assistant Secretary.

FEDERAL RESERVE BANK
OF NEW YORK

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August 20, 1926.

J. C. Noell, Esq.,
Assistant Secretary, Federal Reserve Board,
Washington, D.C.

Dear Mr. Noell:

I have your letter of August 18, advising me that after careful consideration the Board has decided to refer back to the Conference of Governors for further consideration an amendment to Section X (3) of Regulation A, which was discussed at the last conference, and thank you for the information.

I assume that this would not necessarily preclude a ruling by the Board meanwhile along the lines indicated in the last paragraph of Governor Young's letter to Mr. Eddy, dated July 26, 1926. If that were done it would, I think, serve the Minneapolis and St. Paul banks quite as well during the approaching grain season, which is almost upon us and which, from all accounts, I surmise will bring pretty heavy demands on the banks in that section.

Very truly yours,

(signed) E. R. Kenzel

E. R. Kenzel,
Deputy Governor.

August 18,
1926.

Mr. R. A. Young, Governor,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minn.

Dear Sir:

The Board has given careful consideration to the matter of adopting an amendment to section X(3) of its Regulation A as proposed by the last Governors' Conference so as to make eligible for rediscount or purchase by Federal reserve banks a bankers' acceptance drawn by an elevator or warehouse company and secured by terminal warehouse receipts of the elevator or warehouse company that draws the draft.

Although this subject was discussed at the last Conference of Governors, it was not on the program and the stenographic record indicates that the Governors had not had a sufficient opportunity to study the question. Since the Conference took place some question has arisen as to whether the adoption of the amendment to the regulations in the form proposed would properly accomplish the desired purpose.

In view of these facts the Board believes that this matter should be given further consideration by the Governors' Conference before being acted upon by the Board and has accordingly decided to put it upon the program for further discussion at the next conference of Governors.

Very truly yours,

(signed) J. C. Noell

J. C. Noell,
Assistant Secretary.

GBV OMC

X-4693-d

Aug. 10, 1926.

Federal Reserve Board

Mr. Wyatt - General Counsel

Bankers' acceptances
secured by terminal warehouse re-
ceipts issued by the borrower.

Pursuant to the instructions issued by the Board at its meeting of August 6th, I have drafted and respectfully submit herewith a proposed ruling which would permit Federal reserve banks to rediscount or purchase on the open market bankers' acceptances secured by registered terminal warehouse receipts issued by the borrowers when such receipts conform to the essential conditions prescribed in the attached correspondence.

I feel it my duty, however, to advise the Board that, in my opinion, it would be unwise to issue a ruling of this kind and that if the Board desires to make acceptances of this kind eligible for rediscount, it would be much wiser to do so by means of an amendment to Regulation A along the lines of that recommended by the last Governors' Conference. I have, therefore, taken the liberty of preparing and respectfully submit herewith a revised draft of the proposed amendment to Regulation A which, in my judgment, will meet most of the objections raised by Mr. Kenzel.

I respectfully request permission to discuss this subject orally with the Board when it comes up for definite action.

Respectfully,

(signed) Walter Wyatt

Walter Wyatt,
General Counsel.

(PROPOSED RULING OF THE FEDERAL RESERVE BOARD.)

BANKERS' ACCEPTANCES SECURED BY TERMINAL GRAIN ELEVATOR OR WAREHOUSE RECEIPTS ISSUED BY THE BORROWER.

Notwithstanding that provision of Section X(3) of Regulation A which requires that, in order to be eligible for rediscount by Federal reserve banks, bankers' acceptances issued to finance the storage of readily marketable staples must be secured at the time of acceptance by warehouse, terminal or other similar receipts, issued by a party independent of the borrower, the Federal Reserve Board has ruled that Federal reserve banks may rediscount bankers' acceptances drawn by terminal grain elevator or warehouse companies and secured by terminal grain elevator or warehouse receipts issued by the drawers; provided that:

(1) Such terminal grain elevator or warehouse company is duly bonded and licensed and is regularly inspected by State or Federal authorities with whom all receipts for grain and all transfers thereof are registered and without whose consent no grain can be withdrawn;

(2) Under the laws of the State in which such terminal grain elevator or warehouse is located, as interpreted by the courts of such State, such receipts give the holder good legal title to, or an effective legal lien on, grain of the amount and quality for which such receipt is issued, which title or lien is good as against bona fide purchasers and general creditors; and

(3) Such acceptances comply in all other respects with the relevant provisions of the Federal Reserve Act and the regulations and rulings of the Federal Reserve Board.

This ruling is designed to give recognition to receipts issued by terminal grain elevator or warehouse companies located in certain States the laws of which provide for the supervision of such elevator or warehouse companies and the registration of receipts to such an extent that in practical effect, the grain is under the control of State officials independent of the issuing warehouse or elevator. Such State supervision and control is believed sufficient to warrant the Federal Reserve Board in making an exception to its general rule that warehouse receipts securing bankers' acceptances issued to finance the storage of readily marketable staples must be issued by a party independent of the borrower.

PROPOSED AMENDMENT TO REGULATION A.

BE IT RESOLVED by the Federal Reserve Board that Section X (3) of Regulation A be amended to read as follows:

"(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, conveying security title to such staples, issued by a party independent of the customer or issued by a terminal grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for grain and all transfers thereof are registered and without whose consent no grain can be withdrawn; and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (a) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (b) that a new document, similar to the original one, will be re-substituted within a specified time."

August 10,
1926.

FEDERAL RESERVE BANK

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OF MINNEAPOLIS

July 26, 1926

Mr. Walter L. Eddy, Secretary,
Federal Reserve Board,
Washington, D.C.

Dear Mr. Eddy:

This will acknowledge receipt of your letter of July 24, enclosing copy of letter of Mr. E. R. Kenzel, Chairman of the General Committee on Bankers Acceptances, dated July 9, to Mr. Walter Wyatt,

Mr. Kenzel is correct in his interpretation of rules numbers 63, 64 and 65, adopted by the Railroad & Warehouse Commission of the State of Minnesota. It is not compulsory for an elevator in this state to issue receipts for all the grain stored. Likewise, it is not compulsory for these receipts to be registered. Therefore, the receipts of an elevator company in the state of Minnesota may be good, or may not be good. However, an elevator company may issue receipts for all grain stored and may have the receipts registered by a representative of the State Department, as to quantity and grade.

The Twin City bankers long ago recognized that if receipts were to be good security, receipts should be issued for all grain stored and that such receipts should be registered by the State Department, and, in reality, be under state control. In fact, a regular registered terminal warehouse receipt is the only security that a northwestern banker can accept on the domestic storage of grain and feel absolutely sure of what he is getting. The Twin City bankers would not care to accept many receipts that are issued by elevators in this state that comply with the law. Therefore, the amendment to Subdivision 3 of Section 10 of Article B of Regulation A, was worded in such a way so that the receipts of elevators that were not bonded, that did not issue receipts for all of the grain stored in their elevators, or that did not have the receipts registered, would be excluded.

I am still convinced that the suggested amendment will cover the situation and throw out the proper safeguards. Nevertheless, I cannot help but feel that the whole question could be handled much better if Mr. Kenzel's suggestion be adopted - that is, that the Board interpret its own regulations to mean that regular registered terminal warehouse receipts constitute documents for commodities so controlled by a third party independent of the borrower, as to make them good and eligible collateral.

Yours respectfully,

(signed) R. A. Young
R. A. Young,

(COPY)

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X-4693-h

July 24, 1926.

Dear Governor Young:

There is enclosed herewith copy of a letter addressed to the Board under date of July 9th by Mr. Kenzel, Deputy Governor of the Federal Reserve Bank of New York, which is self-explanatory. It is requested that you advise the Board of your views on the matters discussed in Mr. Kenzel's letter.

Very truly yours,

Walter L. Eddy,
Secretary.

Mr. R. A. Young, Governor,
Federal Reserve Bank,
Minneapolis, Minn.

(Enclosures)

(COPY)

X-4693-i

July 13, 1926.

To Federal Reserve Board
 From Mr. Wyatt - General Counsel

Subject: Bankers' Acceptances
 secured by terminal warehouse re-
 cepts issued by the borrower.

At the last Governors' Conference, the Conference voted to request the Board to amend Section X(3) of Regulation A to read as follows, the words underlined being added to the present regulation:

"(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, conveying security title to such staples, issued by a party independent of the customer or issued by a terminal grain elevator company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for grain and all transfers thereof must be registered and without whose consent no grain can be withdrawn; and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (a) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (b) that a new document, similar to the original one, will be re-substituted within a specified time."

The purpose of this proposed amendment is to make eligible for rediscount or purchase by Federal reserve banks, bankers' acceptances drawn by an elevator company and secured by a terminal warehouse receipt of the elevator company that draws the draft.

OPINION

In my opinion, the Board may legally adopt and promulgate this amendment to its regulations. The question whether it should do so is a question of policy to be decided by the Board.

DISCUSSION

This proposed amendment to the Board's regulations was first recommended by Governor Young in a letter addressed to the Board under date of September 17, 1924. The matter was referred to this office and Mr. Freeman rendered an opinion in which he stated that there was some doubt whether warehouse receipts of the kind described in Governor

Young's letter would comply with that provision of the Federal Reserve Act which requires that they convey or secure title, especially in view of the fact that the grain is stored in an elevator owned by the borrower and that the warehouse receipts are issued by the borrower to himself. Mr. Freeman stated that there is a conflict in the decided cases as to whether such a receipt does secure title to the goods or whether a bona fide purchaser of goods from the warehouseman does not take precedence over the holder of the receipt. In my opinion, the question whether these particular receipts convey a good title or give the holder a valid lien enforceable against a bona fide purchaser of the wheat, is a question which will depend upon the laws of the state in which the elevator is located and upon the construction of those laws by the courts of that state. This is a question of local law upon which this office cannot undertake to pass.

Mr. Freeman also stated that, even if such warehouse receipts could be considered as complying with the letter of the law, there would still remain an important question of policy whether the Board should make an exception to the fundamental principle heretofore established by it and uniformly adhered to, that such receipts must be issued by a party independent of the borrower. In view of the importance of this question Mr. Freeman recommended that it be considered by the Acceptance Committee of the Governors' Conference and that committee be requested to make a recommendation to the Federal Reserve Board.

The Board advised Governor Young under date of October 15, 1924, that no immediate change in the regulations was possible in such an important matter and suggested that he submit the question for consideration at the next Governors' Conference. The question, however, was not submitted to, or considered by, the Governors' Conference at that time.

Under date of September 9, 1925, Governor Young again brought up this question and urged an early ruling upon it. Mr. Mitchell came to Washington to discuss the question with the Board and, by direction of the Board, this office prepared a proposed form of amendment designed to accomplish what the Federal Reserve Bank of Minneapolis and its member banks desired. This amendment was prepared after a discussion with Mr. Mitchell and he was entirely satisfied with it. At the Board meeting on September 29, 1925, the matter was discussed informally by the Board with Mr. Mitchell. No definite action was taken by the Board because the matter had never been passed upon by the Governors' Conference. The discussion resulted in an informal understanding to the effect that the Board would not consider the adoption of any such amendment to its regulations without the question having first been considered by the Governors' Conference and that, if the Federal Reserve Bank of Minneapolis desired to have the subject considered by the Governors' Conference,

Governor Young should have it put on the program for discussion at the next Governors' Conference.

This subject was finally put on the program for discussion at the last Governors' Conference and the Conference recommended the adoption of the proposed amendment to Regulation A.

Under date of July 2nd, Mr. Kenzel, Chairman of the General Committee on Banking Acceptances, addressed a letter to the Board in which he suggested that, in view of the close approach of the grain marketing season, it would be desirable for the Board to deal with this question at its early convenience. I have had some further correspondence with Mr. Kenzel on this subject, which develops the fact that Mr. Kenzel fears that the proposed amendment is so strictly worded that it would be difficult for the terminal elevator companies to comply with its requirements. In this connection I desire to call attention to the fact that the amendment recommended by the Governors' Conference was drafted by this office at the Board's direction and after thorough consultation with Mr. Mitchell. Mr. Mitchell and I discussed the subject personally at great length, and Mr. Mitchell was thoroughly satisfied with the language of the amendment and advised me that it would satisfactorily fit the practical situation in his district. In view of these facts, I am inclined to think that Mr. Kenzel's fears are unfounded, though I cannot undertake to interpret the Minnesota law, which is not at all clear.

The law requires that a bankers' acceptance drawn to finance the domestic storage of readily marketable staples must be secured by a warehouse receipt "conveying or securing title" to such staples; and the Board cannot waive this requirement of the law. In order to make sure that this requirement of the law is complied with, the Board has heretofore ruled uniformly, and has required by the terms of its regulations, that such receipts must be issued by a party independent of the borrower. If, under the laws of the state in which the warehouse or elevator is located, a receipt like that described in Governor Young's letter is held by the courts to convey valid title to the grain and to give the holder a valid lien on such grain which is good against a bona fide purchaser of the grain, the Board would waive the requirement of its regulations that such receipt be issued by a party independent of the borrower. The question whether, even under these circumstances, the Board should waive this fundamental requirement of its regulations, however, is an extremely important question of policy.

The attached draft of a proposed amendment to Regulation A would make an exception to the requirement that the warehouse receipt be issued by a party independent of the borrower, but would not waive the requirement of the law that such receipt must convey or secure title. The question whether receipts securing bankers' acceptances comply with the law as conveying or securing title would in each instance be a question for determination by the Federal re-

serve bank upon the advice of local counsel; because the court decisions in the various states are in such conflict upon this subject that the Board could not well attempt to issue any general ruling on it.

I wish to make it clear that this office does not recommend the adoption of this amendment. If, however, the Board decides to adopt this amendment, I respectfully suggest that the matter is not of sufficient general importance to warrant the publication of a new edition of the regulations at this time, and that the matter could be sufficiently covered by the publication of the amendment in the Federal Reserve Bulletin. Such a statement in the Federal Reserve Bulletin should call particular attention to the fact that this amendment to the Regulations does not waive the requirement of the law that such warehouse or terminal receipts must convey good security title and that under the regulation as amended it is essential that, such terminal or warehouse receipts must actually convey to the holder a valid lien which is enforceable as against general creditors of the warehouse company or bona fide purchasers from the warehouse company.

For the further information of the Board, there is attached hereto the Board's previous file on this subject and the recent correspondence with Mr. Kenzel.

Respectfully,

(Signed) Walter Wyatt,

General Counsel.

File attached.

FEDERAL RESERVE BANK
OF NEW YORK

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July 9, 1926.

Federal Reserve Board,

Washington, D.C.

Attention: Mr. Walter Wyatt

Dear Mr. Wyatt:

Referring to our conversation this morning over the telephone as to the adequacy of the terms of Regulation A if modified as suggested by Governor Young (see page 383 of Stenographer's Minutes of the Governors Conference of March 1926), to admit as eligible security for warehouse secured bankers acceptance credits the receipts issued by the Minneapolis terminal elevators, I shall endeavor to state the doubts that arose in my mind in that regard.

The pertinent language in the proposed amendment is "or issued by a terminal grain elevator company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for grain and all transfers thereof must be registered and without whose consent no grain can be withdrawn." Nothing that I have seen, either in the law of the State of Minnesota, the rules or by-laws of the Railroad and Warehouse Commission of the State of Minnesota or in any communications from bankers, indicates that the Minneapolis terminal elevator grain companies are duly bonded and licensed or that all of their receipts for grain and all transfers thereof must be registered.

I think it is quite clear from the documents which I sent to Mr. Vest on July 2 that the Bartlett Frazier Company of Minneapolis conducts its Soo Line terminal elevator as a public terminal warehouse and that it is as a public terminal warehouse rather than as a terminal grain elevator that they come within the warehouse provisions of the law.

Rule #64 adopted by the Railroad and Warehouse Commission states that holders of warehouse receipts should promptly present them, etc., for registration. You will note that it is permissive, not compulsory.

Rule #63 covering the delivery of grain on storage receipts provides for delivery of the grain upon surrender of the receipt properly indorsed. I do not see that the rule requires that the receipt shall have been registered by the Commission. Another part of the same rule authorizes the State Registration Department to accept terminal public warehouse receipts for cancellation, etc. No mention is made of registered receipts, from which I infer that some receipts may not be registered.

Rule #65 refers in its latter part to grain delivered for which no receipts have been issued, which to my mind presents the probability of the fact

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that it is contemplated that grain shall be received for which no receipts are issued and which, therefore, when delivered must be delivered without the surrender of receipts.

It would seem to me, therefore, at least from these rules and lacking further definite information, that serious doubt is created in respect of the compliance of these terminal elevator receipts with the terms of the amendment suggested by Governor Young, and in every case it would be a question in which Federal reserve banks would have to ascertain the facts as to exact compliance with the proposed regulation which, in my opinion, would be a serious detriment to the ready negotiability of the bills.

If it is desired to admit this class of receipt as eligible by a change in the Regulations, in my opinion, for practical purposes the change would have to be so drafted as to relieve all apprehension or doubt as to the compliance of the collateral with the terms of the regulation. This, I consider, might well require such a general description of the collateral as would be difficult to draft in such a way as would exclude other receipts not safeguarded as the Minneapolis grain receipts are by the Railroad and Warehouse Commission, provided the holder of the receipts chooses to avail of the protection provided by the Commission.

On the other hand, carrying a little further the thought that I intended to convey in my letter of July 2, it has always been my understanding that the purpose of all of the Board's special rulings in respect of warehousing facilities controlled by trustees or agents of creditors was to assure that the security title would be conveyed by the warehouseman's receipt and that the physical property would be safeguarded to the creditors by a physical control as well, exercised by the trustees or agents, rather than that the signature of the actual receipt issued should be by someone other than the borrower. In fact, I am quite sure that in many credits that have been granted under these special rulings the actual receipts were executed by the borrower. Therefore, I have felt and I believe that the accepting bankers generally feel that the spirit and intent of the Regulations as interpreted by these special rulings is complied with if the physical custody of the goods pledged is made practically independent of the borrower by the supervision and acts of the trustees or agents.

It seems to me that, for practical purposes, that is a reasonable view and it was with such thoughts in mind that I attempted to state my belief that these Minneapolis terminal warehouse receipts for grain in terminal elevators, when registered by the Commission, knowing all that we now do about the physical control of the grain by the representative of the Commission, the inspection of it on receipt, the weighing it in and the weighing it out, the registration and the sealing up of the spouts at night when the agent of the Commission is absent from the elevator, constitute documents for commodities so controlled by the Commission independently of the borrower as to make them good and eligible collateral under the present regulations as modified and interpreted by the special rulings the Board has made from time to time heretofore in connection with commodities stored in the borrower's warehouses or on the borrower's premises but physically controlled by trustees or agents of the creditors.

I should be glad to discuss any other points in this matter with you at your convenience.

Very truly yours,

(signed) E. R. Kenzel

E. R. Kenzel,

Chairman, General Committee on

F E D E R A L R E S E R V E B A N K

OF NEW YORK

ATTENTION OF:
MR. G. B. VEST, ASSISTANT COUNSEL

July 2, 1926

Federal Reserve Board,
Washington, D.C.

Dear Sirs:

Referring to our conversation over the telephone this afternoon with respect to the eligibility for acceptance by member banks of bankers acceptances secured by terminal elevator receipts for grain issued by Minneapolis terminal elevators or warehouses which are owned by the taker of credit and drawer of the bill but which are operated under the supervision of the Railroad and Warehouse Commission of the State of Minnesota, I am enclosing as arranged a copy of a letter recently received by Mr. Fred I. Kent, Vice President of the Bankers Trust Company and former President of the American Acceptance Council, from the First National Bank of Minneapolis, dated June 24, 1926; also copies of excerpts from the law of Minnesota pertaining to warehouse receipts and a copy of some of the rules and regulations adopted by the Railroad and Warehouse Commission of the State of Minnesota, and a photostatic copy of a warehouse receipt registered by the Railroad and Warehouse Commission, all being copies of the enclosures mentioned in the aforesaid letter of the First National Bank of Minneapolis received by Mr. Kent and loaned to me by him.

In our conversation over the telephone I referred to the fact that the real question at issue, which is whether or not warehouse receipts issued under such circumstances are issued by a warehousing concern independent of the borrower, was presented by Governor Young at the conference of governors in March, 1926, when the question was discussed and the conference acted favorably upon Governor Young's suggestion that the Board's regulations governing warehouse secured credits should be amended in such a way as was intended to include such warehouse receipts as security for an eligible bill. (See Stenographic Minutes of Conference, pages 378-389).

As stated to you over the telephone, it would hardly seem to me necessary to amend the regulation as suggested to the conference if the control by the Railroad and Warehouse Commission of the grain stored in such terminal elevators is such as to make a receipt issued by the elevator company and registered by the Commission such an "other similar document" as conforms to the spirit and intent of the present regulations.

I may say that I have discussed the degree of actual security as represented by such receipts with the leading bankers in Minneapolis, with Governor McDougal and Deputy Governor McKay of the Chicago Federal Reserve Bank and with leading bankers in Chicago, and have been assured by each of them that such receipts are taken freely as collateral for loans in important

amounts by the Minneapolis and Chicago banks and are by them regarded as being absolutely safe and about the best collateral that they handle in their institutions. Each of them has referred to the practical control of the warehouses by the Commission through its representative stationed at each warehouse and had told me in effect that it would be practically impossible for the grain to be removed from the warehouse without the surrender of the receipts.

Personally, I am assured in my own mind that these terminal receipts registered by the Commission are the full equivalent of the kind of receipts intended to be required by the Board in its Regulations.

Mr. Kent had stated to me that the First National Bank of Minneapolis would have occasion during the coming grain season to extend a large amount of credit on grain in terminal elevators in Minneapolis, possibly as much as \$5,000,000 and that the other banks in Minneapolis would have relative opportunities and that he himself would consider receipts issued and registered under these conditions as collateral abundantly good and entirely satisfactory to secure acceptance credits; also that it had been his intention to take the matter up with the Board through the American Acceptance Council. He, however, did not know that the matter was already before the Board and had been under discussion for some considerable period of time and he, therefore, gladly acquiesced in my suggestion that I forward you this new information which had come to him.

In view of the close approach of the grain shipping season I would respectfully suggest that it would seem desirable that the Board might deal with this question at its early convenience.

Respectfully,

(signed) E. R. Kenzel,

E. R. Kenzel,
Chairman, General Committee on
Bankers Acceptances.

ERK/VRM
Encs.

FIRST NATIONAL BANK

MINNEAPOLIS, MINN.

June 24th, 1926.

Mr. F. I. Kent, Vice President,
Bankers Trust Co.,
16 Wall Street, New York City.

Dear Mr. Kent:

Referring to our conversation of a few days ago regarding the eligibility of bills secured by warehouse receipts issued by the same company as the drawer of the bill. I enclose herewith photostatic copy of a terminal elevator receipt issued in accordance with the rules and regulations of the R. R. & Warehouse Commission of Minnesota. You will note the receipt reads for a specified amount of a certain grade of grain and bears a stamp showing date of registration by the R. R. & Warehouse Commission. As stated in my conversation, it is our practice to check the registration and genuineness of the receipts by presenting them at the office of the R. R. & Warehouse Commission in Minneapolis, so that we are assured of the genuineness of the collateral in our hands. The Statute distinctly states that grain can only be delivered upon delivery of the warehouse receipt.

I think I mentioned to you that terminal elevators are inspected by the R. R. & Warehouse Commission at regular intervals, and that also in each elevator is a representative of the Commission who actually checks the incoming and outgoing grain, and when this representative leaves at night, the spouts are sealed by him.

As requested by you, I enclose copies of excerpts from the Law of Minnesota pertaining to warehouse receipts, and also a copy of some of the rules and regulations adopted by the R. R. & Warehouse Commission. We feel that bills secured by these warehouse receipts conform with the requirements for eligible bills and will appreciate your assistance in having them declared eligible. Governor Young has already had the matter up before the Governors of the Federal Reserve Bank, and it is my understanding the change was approved by them and their action has been submitted to the Federal Reserve Board who now have the matter under advisement. With kindest regards, I am,

Yours very truly,

(Signed) J. G. BYAM

Vice President.

JGB'B

(COPY)

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Chapter 28, of the General Statutes of Minnesota for 1923 covers railroads, warehouses and grain, including the power and duties of the Railroad and Warehouse Commission under Sections 5020 and 5021, as follows:

5020. - GRAIN TO BE RE-DELIVERED ON SURRENDER OF WAREHOUSE RECEIPT.*

Upon return of the receipt of grain not stored in separate bins to the proper warehouseman, properly indorsed, and upon payment or tender of all advances and legal charges, grain of the same grade and quantity named therein shall be delivered to the holder of such receipt within twenty-four hours after facilities for receiving the same have been provided. The identical grain, if stored in separate bins, shall be so delivered. If such warehouseman shall fail so to deliver it, he shall be liable to the owner in damages at the rate of one cent a bushel for each day's delay, unless he shall deliver the property to the several owners in the order of demand, as rapidly as it can be done by ordinary diligence. If the warehouseman shall fail so to deliver such grain, the person entitled thereto may recover the same, if kept in separate bins, or the same amount of grain of like grade, if stored with other grain, or the value thereof, in a civil action; and such warehouseman shall also be guilty of larceny.

5021. - WAREHOUSEMAN NOT TO SELL WITHOUT AUTHORITY FROM OWNER. -

No such warehouseman shall sell or otherwise dispose of or deliver out of store any grain stored in his warehouse without the express authority of its owner and the return of the storage receipt, except as herein provided, nor mix together grain of different grades in store, nor select grain of different qualities, but of the same grade, for storage or delivery, nor shall he in any way tamper with grain of others while in his possession or custody, with the purpose of securing any profit to himself or any other person, or attempt to deliver grain of one grade for that of another. Any person violating any provision of this section shall be punished by fine of not more than one thousand dollars or imprisonment in the state prison for not more than five years, or both.

RULES 61, 62, 63, 64, 65 and 66 of RULES AND REGULATIONS
ADOPTED BY THE RAILROAD AND WAREHOUSE COMMISSION

Rule 61

INSPECTION AT TERMINAL WAREHOUSES

All grain received into or shipped from public terminal warehouses must be inspected by a duly authorized State Inspector and weighed by a duly authorized State Weigher.

Rule 62

WAREHOUSE RECEIPTS

Warehouse receipts in the form prescribed by law must be issued upon the application of the owner or consignee for all grain received, but only upon actual delivery of grain into store. No receipts shall be issued for a greater quantity of grain than is actually received.

Rule 63

DELIVERY OF GRAIN ON STORAGE RECEIPTS

Upon return of the receipt to the proper Warehouseman properly indorsed, and upon payment or tender of all advances and legal charges, grain of the grade and quantity named therein shall be delivered to the holder of such receipt within twenty-four hours after facilities for receiving the same have been provided.

The grain represented by said receipt is immediately deliverable and not subject to further charge for storage, and the Warehouseman shall be held in default if delivery is not made in the order demanded and as rapidly as due diligence, care and prudence will justify.

The State Registration Department is hereby authorized to accept terminal public warehouse receipts for cancellation, also loading out instructions, from parties surrendering the same, who may have taken delivery of wheat on May, July and other future contracts. The Registration Department shall furnish to such receipt holders, blank forms in triplicate of the surrender notice and loading out instructions, and upon surrender of the receipts to the Department by the holder thereof, accompanied by surrender notice and loading instructions, said receipts shall be cancelled by the Department and returned to the terminal company issuing the same, taking duplicate receipts therefor, one to be retained by the Department and the other returned to the party surrendering said receipts.

Rule 64

HOLDERS OF RECEIPTS TO PRESENT SAME FOR REGISTRATION

Holders of warehouse receipts should promptly present them at the office of the Warehouse Registrar for registration, and upon the delivery of grain represented by any of the said receipts such receipts shall be immediately cancelled and shall thereafter be void and not again placed in circulation.

Rule 65

WAREHOUSEMAN'S DAILY REPORT TO REGISTRAR

Warehousemen must state in their daily reports to the Registrar the amount of each kind and grade of special bin grain received or delivered; also what warehouse receipts representing such grain have been cancelled, giving number of each receipt and the amount, kind and grade received and delivered upon each; they must also state the amount, kind and grade of all other grain delivered, for which no receipts have been issued; also show when and how such unreceipted grain was received.

Rule 66

WAREHOUSEMAN'S STATEMENT

It shall be the duty of Public Warehousemen on or before Tuesday morning of each week to make a statement, under oath, of the amount of each grade of grain in store in his warehouse at the close of business on the previous Saturday, and shall furnish to the Warehouse Registrar and Railroad and Warehouse Commission such daily and weekly statements as they may require.

September 29, 1925.

PROPOSED AMENDMENT TO REGULATION A, ARTICLE B, SECTION X, SUBDIVISION (3).

In order to effect the amendment suggested by Governor Young of the Federal Reserve Bank of Minneapolis in his letter of September 9, 1925, Mr. John R. Mitchell, at a meeting of the Federal Reserve Board today, suggested that Subdivision (3) of Section X, of Article B, of Regulation A, be amended to read as follows, the words in capital letters being inserted:

"(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, conveying security title to such staples, issued by a party independent of the customer OR ISSUED BY A TERMINAL GRAIN ELEVATOR COMPANY DULY BONDED AND LICENSED AND REGULARLY INSPECTED BY STATE OR FEDERAL AUTHORITIES WITH WHOM ALL RECEIPTS FOR GRAIN AND ALL TRANSFERS THEREOF MUST BE REGISTERED AND WITHOUT WHOSE CONSENT NO GRAIN CAN BE WITHDRAWN; and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (a) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (b) that a new document, similar to the original one, will be resubstituted within a specified time."

FEDERAL RESERVE BANK
OF MINNEAPOLIS

X-4693-p

September 9, 1925.

Hon. D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Governor Crissinger:

Under date of September 17, 1924, I wrote you in reference to acceptances in this district, which our larger banks were executing on domestic storage of grain. Copy of my letter is enclosed herewith, which will be self-explanatory. Under date of October 15, 1924, Mr. Platt replied to my communication upon behalf of the Board, and suggested that the matter be discussed before the Governors' Conference. I also received a letter from Mr. Cunningham in reference to the matter, dated October 16, 1924. Inasmuch as I was going to Washington, I did not reply to their communications by letter, but discussed the matter with them in detail when I was in Washington.

It appears to our people that these acceptances are entirely legitimate and secured by a receipt that is just as good as that of an independent elevator. Some of our banks are again accepting in this manner, and while there is nothing to prohibit them from doing it, that I know of, still I have to inform them that there is a question about their eligibility for purchase or discount by a Federal Reserve Bank.

I do not know that it is absolutely necessary to finance by this method at the moment, but at the same time I am satisfied that the time will come when our banks will have to resort to the acceptance form of credit to enable them to handle the marketing of grain in an orderly and systematic way. I therefore would appreciate it very much if the Board would again consider the request of our people, and see if it is not possible to amend the regulations in such a way as to permit acceptances of terminal elevator companies, which are under State supervision, to be eligible for discount or purchase at a Federal Reserve Bank, even if such acceptances are secured by regular, registered, terminal warehouse receipts of the elevator that draws the draft. I do not see how it is possible for me to give any more information in reference to the transaction other than was contained in my letter of September 17, and the verbal talks I have had with Messrs. Cunningham and Platt. Nevertheless, Mr. Mitchell contemplates being in Washington in the very near future, and if there are additional inquiries which you care to make of him, he is thoroughly familiar with the transaction and can explain the details.

I would appreciate a ruling on this question as soon as possible after your interview with Mr. Mitchell, because some of our banks are anxious to get a reply.

Yours respectfully,
(signed) R. A. Young
R. A. Young

(COPY)

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X-4693-q

October 15, 1924.

Dear Governor Young:

The Board, at its meeting on Tuesday, considered the points raised in your letter of September 17th, suggesting a change in Section X, Article B, of Regulation A, so that acceptances based upon terminal elevator warehouse receipts covering the storage of their own grain might be made eligible for discount by Federal reserve banks, and directed me to reply that no immediate change in the Regulations is possible in such an important matter. This question is not a new one and there is at least some doubt as to the power of the Board to amend the Regulations in the desired manner under the law. The question of policy involved is so important that the Board suggests that you submit this for consideration at the forthcoming conference of Governors.

I have heard the suggestion made that the control of grain in these elevators by the State Railroad and Warehouse Commission is so complete their operation is practically that of independent warehouses. A full statement of the facts involved in the operation of checking in and checking out grain should be made.

Very truly yours,

(Signed) Edmund Platt

Vice Governor.

Mr. R. A. Young, Governor,
Federal Reserve Bank,
Minneapolis, Minn.

FEDERAL RESERVE BANK
OF MINNEAPOLIS

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September 17, 1924.

Hon. D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Crissinger:

It has been the practice of terminal elevator companies in this district to establish an acceptance credit with local banks on the domestic storage of grain. The elevator company draws on the bank, which accepts, and such acceptance is secured by regular registered terminal warehouse receipts of the elevator company that draws the draft. This form of acceptance was recently referred to our Counsel, and I am sending herewith a copy of his opinion. You will observe that in Judge Ueland's opinion such acceptances are not eligible for discount or purchase by a Federal Reserve Bank. Nevertheless, the acceptances are so well secured that I am writing to you to see if it would not be possible to have the Board amend its regulation in such a way that acceptances of this class would be eligible for discount or purchase by a Federal Reserve Bank, and in making such suggestion I offer the following:

A terminal elevator in Minnesota is under strict supervision and control of our State Railroad & Warehouse Commission. All grain that is stored in the elevator is checked in by a representative of the State Railroad & Warehouse Commission as to grades and weights. All grain is checked in like manner that is removed from the elevator. Therefore, if an elevator company issues a negotiable terminal warehouse receipt against grain stored in its own elevator, the grain cannot be removed from the elevator except with the knowledge and permission of a representative of the State Railroad & Warehouse Commission. There is one exception to this statement. It would be possible for the elevator company to move the grain between 6 o'clock in the evening and 7 o'clock the following morning. However, the possibility of an elevator company removing grain from its own elevator during these hours is almost negligible and need not be considered, because the only way it could remove any great amount would be by box cars, and the railroads would not handle the grain between those hours. Even if it is admitted that it is possible to remove a portion of the grain between these hours, the State has thrown out an additional safeguard by requiring the elevator company to furnish a bond of 15¢ a bushel on the elevator's capacity. In the case of the Electric Steel Elevator Company the bond is for \$600,000. In addition to this, every terminal elevator in the Twin Cities is under the direct surveillance of our local Chamber of Commerce, i. e. a representative of the Chamber of Commerce can check any terminal elevator as to bushels and grades at any time. I am informed that this is done regularly by the Chamber of Commerce about every three weeks. I point out these facts to show that every possible safe-guard

has been taken to protect the delivery of the grain when the holder of a receipt demands delivery. In other words, a regular registered terminal warehouse receipt issued by the elevator company that draws the draft is just as good collateral as a receipt issued by a party independent of the drawer.

It will be suggested that an independent company be organized to take custody of the grain, but even if such a company was organized and it issued a regular registered warehouse receipt under state supervision, it would not be any better collateral, and if it issued its warehouse receipt without state supervision, it would not be as good. It may also be suggested that the elevator company store the grain in an independent elevator, if they contemplate financing by acceptances. However, an elevator's profit comes largely from its storage charges, and if it has to pay storage charges, it would have to get the additional profit either from the buyer or the seller. Of course it would be impossible to get it from the buyer, and it would be the same old story that the grower of the grain - the farmer - would have to stand the expense. We are right in the middle of a crop moving period, and it means everything to our agricultural interests to have grain moved with as little expense as possible. If it should be announced at this time that these bills are ineligible, they would naturally sell at a higher rate in the open market. It therefore seems to me, because of the safe-guards that have been placed around the warehouse receipts, that it would be entirely proper and advisable for the Federal Reserve Board to amend its Regulation A, Series 1924, Article 3, subdivision (3) in such a way as to permit acceptances of our terminal elevator companies that are under state supervision to be eligible for discount or purchase by a Federal Reserve Bank, even if such acceptances are secured by regular registered terminal warehouse receipts of the elevator that draws the draft.

I feel that this matter is urgent and would appreciate it very much if the Board would act favorably upon my suggestion.

Yours respectfully,

(Signed) R. A. YOUNG

Governor.

P. S. I have referred this letter to Mr. Mitchell and he approves of my suggestion.

September 15, 1924.

Mr. John R. Mitchell, Chairman,
Board of Directors,
Federal Reserve Bank
of Minneapolis.

Dear Sir:-

In connection with the letter from Mr. Curtiss of the Federal Reserve Bank of Boston of August 9th inquiring concerning the eligibility of a banker's acceptance drawn by the Electric Steel Elevator Company or the Russell-Miller Milling Company of this city and secured by the grain warehouse receipts of the Elevator Company, I submit the following for your information:

Regulation A, Series 1924, Article B, subd. (3) provides that such an acceptance is to be secured "at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer".

The Elevator Company is a public terminal warehouse, independent in point of law of the Russell-Miller Milling Company, and a banker's acceptance of the Milling Company, secured by the warehouse receipts of the Elevator Company, is clearly eligible.

As a public terminal warehouse the Elevator Company is under very strict supervision and control by our State Railroad and Warehouse Commission. The law on that subject is found in Chap. 201, Laws 1923. It requires license from the State, and bond to the State

John R. Mitchell-#2

X-4693-s

to secure the warehouse receipts. The bond in this instance is for \$600,000. The grain taken into the warehouse is weighed and graded by State employees. The Elevator Company is required to make daily reports to the Commission of grain taken out and of cancellation of the receipts for the same, and of the grain remaining from time to time under outstanding receipts. The law, in short, places the warehouse under such rigid State control so as to make the receipts most excellent security. The Commission having constant information about the grain in the warehouse and the outstanding receipts, it is the practice here to have its registrar certify on the receipts that the grain called for is actually in the warehouse. But while this is the practice such a certification is not mandatory under the law, and a receipt issued without that certification is valid, and entitles the holder to the grain called for. It has been suggested that in effect the grain is in the custody of the Commission and that the receipts are therefore within the ruling of the Board reported in Vol. 9, page 1194, Federal Reserve Bulletin, 1923, concerning coal on the Duluth docks. I do not think this can be successfully claimed. The storage receipts for coal in that case were issued by a storage company which held the title to the coal as trustee and had possession and custody of the coal, independent of any control on the part of the drawer of the acceptance. In the present instance, notwithstanding the supervision and control of the Railroad and Warehouse Commission, and the excellence of the storage receipts as security, the Elevator Company must be conceded

John R. Mitchell - #3.

the
to be/custodian of the grain represented by the receipts.

The receipts are hence not "issued by a party independent of the customer".

What is said above applies exclusively to the question of eligibility for discount in a Federal reserve bank.

(Signed) A. UELAND
Counsel.

AU*MS.