

FEDERAL RESERVE BOARD

X-4740

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 4, 1926.

SUBJECT: Acceptances by national banks against import and export bills.

Dear Sir:

The Federal Reserve Board has for some time had under consideration the question whether national banks may legally accept drafts drawn upon them by other banks against the security of import or export bills of exchange previously discounted by such other banks.

The question now arises in the following form: The New York agency of a foreign bank buys export bills to finance the shipment of cotton to a foreign country; and, in order to refinance itself, arranges for a national bank to accept bills drawn upon such national bank by such foreign bank and secured by a pledge of the export bills previously purchased by the foreign bank. The question presented is whether the national bank may lawfully accept bills drawn upon it under such circumstances.

In a ruling published on page 610 of the Federal Reserve Bulletin for June 1920, the Board ruled that "no bank which has purchased a foreign documentary draft may refinance itself by drawing a draft on a member bank secured by the documentary draft". The Board has carefully reconsidered this question, however, and is of the opinion that such ruling contains an unnecessarily strict interpretation of the law. The Board is now of the opinion that such acceptances may be said to come within the broad terms of the provision of Section 13 of the Federal Reserve Act which authorizes member banks to accept drafts drawn upon them "which grow out of transactions involving the importation or exportation of goods"; provided that such drafts are drawn before the underlying export transaction is completed. The same interpretation would necessarily apply also to drafts drawn upon national banks by other banks against the security of import bills previously discounted by such other banks.

The Board rules, therefore, that national banks may legally accept drafts drawn upon them by other banks against the security of import or export bills of exchange previously discounted by such other banks; provided that such drafts are drawn before the underlying import or export transactions are completed and comply as to maturity and in all other respects with the provisions of the law and the Board's regulations. Conversely, the Board rules that national banks may not legally accept drafts drawn upon them by other banks against the security

of import or export bills of exchange previously discounted by such other banks when such drafts are drawn after the underlying import or export transactions are completed.

In the Board's opinion, an import or export transaction is completed when the goods have arrived at the final destination specified in the export shipping documents.

Very truly yours,

D. R. Crissinger,
Governor.

TO ALL GOVERNORS.