

August 2, 1929.

To: Federal Reserve Board

Subject: History of Com-

From: Mr. Wyatt - General Counsel.

modity Paper.

In accordance with the Board's request, there is given below a review of the history of commodity paper with quotations from the Board's various regulations on this subject.

The rediscount of "commodity paper" at special rates of rediscount was first provided for by Regulation Q, Series of 1915, issued by the Federal Reserve Board under date of September 3, 1915, which read as follows:

"COMMODITY PAPER.

"In this regulation the term 'commodity paper' is defined as a note, draft, or bill of exchange secured by warehouse terminal receipts, or shipping documents covering approved and readily marketable, nonperishable staples properly insured.

"Commodity paper, to be eligible for discount by a Federal Reserve Bank under section 13, at the special rates hereby authorized to be established for commodity paper below the usual commercial rates, must (a) comply with all the requirements of Regulation B, series of 1915, paragraphs I and II, or with the requirements of Regulation C, series of 1915; (b) and be paper on which the rate of interest or discount, including commission charged the maker, does not exceed 6 per cent per annum, and also (c) comply with such regulations as may be issued by Federal Reserve Banks covering requirements as to warehouse or terminal receipts, shipping documents, insurance, etc., adapted to the particular needs of its district as a condition of the special rate herein authorized.

"Federal Reserve Banks are now authorized to submit rates for the discount of commodity paper in accord with this regulation for review by the Board."

This provision next appeared as Section VII of Regulation A, Series of 1916, issued under date of September 15, 1916, which read as follows:

"VII. COMMODITY PAPER.

"(a) Definition. - Commodity paper within the meaning of this regulation 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.

"(b) 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 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 maker, does not exceed 6 per cent per annum."

The provision for "commodity paper" last appeared in the Board's Regulations as Section VII of Regulation A, Series of 1917, issued under date of June 22, 1917, which read as follows:

"VII. COMMODITY PAPER.

"(a) Definition. - Commodity paper within the meaning of this regulation 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,

"(b) Eligibility. - To be eligible for re-discount 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 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 maker, does not exceed 6 per cent per annum.

"(c) Suspension of commodity rate. - As the special rate on commodity paper is intended to assist actual producers during crop-moving periods and is not designed to benefit speculators, the Board reserves the right to suspend the special rates herein provided whenever it is apparent that the movement of crops, which this rate is intended to facilitate, has been practically completed."

The provision for "commodity paper" was omitted from the next edition of the Board's regulations, which was the Series of 1920, issued under date of October 6, 1920, and has not appeared in any regulation issued by the Board subsequent to that date.

A possible explanation of the omission of the section regarding commodity paper from the Board's Regulations of 1920 appears in a

letter addressed to Senator Owen by Governor Harding under date of March 18, 1918, which reads in part as follows:

"This special rate on commodity paper was, of course, given to facilitate commerce in various commodities. The demands on the banks at the present time are such, however, that it was found to be necessary to merge the discount rates on commodity paper with those for commercial paper of corresponding maturities.

"This action by the banks was approved by the Board on November 28, (1917), so that the special rates on commodity paper are not now in force."

From a circular letter addressed to the Federal reserve banks under date of August 2, 1922, (X-3494), a copy of which is attached hereto, it appears that the Federal Reserve Board at that time considered the subject of reviving special rates on commodity paper; but the Board did not actually revive such rates at that time.

Under date of October 9, 1926, I prepared at the request of Mr. James, two alternative drafts of regulations on commodity paper copies of which are attached hereto. Neither of these regulations, however, was ever promulgated.

There is also attached hereto for the Board's information a copy of a draft of a proposed circular letter providing special rates on "seasonal crop-marketing paper", which I prepared for Dr. Miller under date of August 11, 1928, but which was never sent out.

Respectfully,

Walter Wyatt  
General Counsel.

Papers attached.

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(COPY)

## CIRCULAR LETTER

August 11, 1928.

SUBJECT: Special Rates on Seasonal Crop Marketing Paper.

Dear Sir:

Prior to 1918 there were in effect at some of the Federal Reserve Banks special rates of rediscount on so-called "commodity paper". Lower rates of rediscount for such classes of paper were fixed by the Federal Reserve Banks and approved by the Federal Reserve Board with a view of meeting the seasonal demands for credit facilities in the crop producing districts.

The Federal Reserve Board believes that the revival of this practice will be especially helpful during the forthcoming crop moving period and accordingly has defined a special class of paper growing out of the movement and marketing of crops which, for convenience, will be called "Seasonal Crop Marketing Paper" and as to which the Federal Reserve Board stands ready to approve a rediscount rate of from one-half of one per cent to one per cent below the rate on other classes of paper, with a view of adjusting the present rate structure so as to facilitate seasonal accommodation to commerce and business.

The Board's definition of "Seasonal Crop Marketing Paper" and the conditions of eligibility applicable to such paper are as follows:

Definition. Seasonal Crop Marketing Paper is defined as a negotiable note, draft, bill of exchange or bankers' acceptance arising out of the marketing of agricultural products produced during the current year or the proceeds of which have been or are to be used to finance the marketing

of such products or the carrying of such products pending orderly marketing.

"Notes, drafts, bills of exchange or bankers' acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products shall be deemed to be included within the above definition if -

"(1) The proceeds thereof have been or are to be used by such association in making payments or advances to any members thereof on account of agricultural products produced during the current year and delivered by such members to the association; or

"(2) The proceeds thereof have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparing for market or marketing of any agricultural product produced during the current year and handled by such association for any of its members; or

"(3) Such paper otherwise complies with the above definition.

"Eligibility." To be eligible for rediscount at the special rate authorized to be established for seasonal crop marketing paper, such a note, draft or bill of exchange must also:

"(1) Be secured by shipping documents or a warehouse, terminal, or other similar receipt covering readily marketable, nonperishable, agricultural products produced during the current year and comply with the requirements of the Federal Reserve

Bank as to insurance;

"(2) Comply with the respective sections of Regulation A, Series 1928, applicable to it; and

"(3) Be a note, draft or bill of exchange on which the rate of interest or discount (including commissions) charged the borrower, does not exceed 6% per annum.

"Paper which is issued or drawn or the proceeds of which have been or are to be used for speculative holding of agricultural products as distinguished from the carrying of agricultural products pending the orderly marketing thereof is not eligible for rediscount."

In authorizing special rates of rediscount pursuant to this letter, it should be understood that this is for seasonal crop marketing purposes only and such authority will be withdrawn at the conclusion of the forthcoming crop marketing period.

The Federal Reserve Board is prepared to give prompt approval to special seasonal rates for seasonal crop marketing paper and requests the several Federal Reserve Banks to give immediate consideration to the advisability of establishing such seasonal rates in time to be of assistance during the forthcoming crop marketing period. Prompt advice as to the attitude of the respective Federal Reserve Banks toward such special rates on seasonal crop marketing paper is desired.

of  
By Order/the Federal Reserve Board.

Walter L. Eddy,  
Secretary.

Oct. 9 - 1926

NO. I.

BE IT RESOLVED BY THE FEDERAL RESERVE BOARD: That Regulation A, Series of 1924, be amended by inserting therein, immediately after Section VIII, a new section reading as follows:

" SECTION VIII<sup>1</sup>/<sub>2</sub>. COMMODITY PAPER.

"(a) DEFINITION. Commodity paper within the meaning of this regulation 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.

"(b) 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 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 maker, does not exceed 6 per cent per annum.

"(c) SUSPENSION OF COMMODITY RATE. As the special rate on commodity paper is intended to assist actual producers during crop-moving periods and is not designed to benefit speculators, the Board reserves the right to suspend the special rates herein provided whenever it is apparent that the movement of crops, which this rate is intended to facilitate, has been practically completed."

COPY

X-6353-c

October 9, 1926.

NO. 2.

BE IT RESOLVED BY THE FEDERAL RESERVE BOARD, That Regulation A, Series of 1924, be amended by inserting therein, immediately after Section VIII, a new section reading as follows:

" SECTION VIII $\frac{1}{2}$  - COMMODITY PAPER.

"(a) DEFINITION.- Commodity paper, within the meaning of this regulation, is defined as a note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by warehouse receipts issued by a warehouse regularly licensed and bonded under the United States Warehouse Act or by any other public warehouse approved by the Federal Reserve Bank of the district in which it is located, which shipping documents or warehouse receipts convey or secure title to readily marketable, non-perishable staples properly insured.

"(b) COMMODITY RATE.- Federal Reserve Banks are hereby authorized to submit to the Federal Reserve Board for approval special rates of discount for commodity paper as defined in this regulation.

"(c) 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 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 maker, does not exceed 6 per cent per annum.

"(d) SUSPENSION OF COMMODITY RATE.- As the special rate on commodity paper is intended to assist actual producers during crop-moving periods and is not designed to benefit speculators, the Federal Reserve Board reserves the right to suspend the special rates herein provided for, whenever it is apparent that the movement of crops, which this rate is intended to facilitate, has been practically completed."



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,

Governor.

(Enclosure)

TO ALL FEDERAL RESERVE AGENTS  
COPIES TO GOVERNORS.

X-3494a

## CONFIDENTIAL TENTATIVE DRAFT.

SUBJECT: Revival of Special Rates on Commodity Paper.

Dear Sir:

Prior to 1918 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 .