

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6415

November 8, 1929.

SUBJECT: Ruling of the Federal Reserve Board
permitting more liberal use of Do-
mestic Bankers' Acceptances.

Dear Sir:

The General Committee on Bankers' Acceptances at its meeting in March, 1926, adopted a report containing a statement of broad general principles regarding correct practices in the granting of domestic bankers' acceptance credits, and recommending that the Federal Reserve Board make more liberal rulings with reference to the use of domestic acceptances in certain specified respects. This report was considered and approved by the Governors' Conference of March, 1926. The Federal Reserve Board acted upon the matter in June, 1928, and approved the report in so far as it contained a statement of the broad general principles regarding correct practices in the granting of domestic bankers' acceptance credits, but with the understanding that such approval should not be construed as revoking or qualifying any of the Board's existing rulings. The Board stated at that time that if the broadened use of bankers' acceptances was found to be hampered by the existing rulings, it would consider the question of revoking or qualifying such rulings provided a statement of specific facts arising in actual cases was submitted. (See X-6066-a).

At the request of the Governors' Conference, there have now been submitted to the Board six specific examples of transactions which it is claimed may not be financed by bankers' acceptances under the existing rulings of the Board. These are submitted as illustrative of the cases in which it has been recommended that acceptance credits be permitted. Five of these six examples have to do with the period of time which should be permitted in the case of a bankers' acceptance drawn by the purchaser of goods to finance their domestic shipment, while the sixth example has to do with the proposal to permit bankers' acceptances against readily marketable staples placed with an independent converter or processor who gives a proper receipt therefor.

The following facts may be regarded as typical of the facts of the first five specific examples submitted: A firm in New York City purchases certain staples from a seller in a western

city who ships the same and draws a sight draft on the purchaser in New York with bill of lading attached. This draft and bill of lading attached are sent in the customary way to a bank in New York, Bank A, designated by the purchaser. The latter then draws a 90 day bill on Bank A, which is accepted by the bank, having at the time in its possession the bill of lading covering the staples in process of shipment. The acceptance is then discounted by the purchaser and the proceeds used to pay the sight draft and to obtain the release of the bill of lading. It does not require 90 days for the completion of the shipment of goods, only a relatively short time being necessary for this purpose. It is recommended to the Federal Reserve Board that the bill drawn by the purchaser be considered eligible for acceptance by Bank A when it has a maturity consistent with the usual and customary credit time prevailing in the particular business.

The Federal Reserve Board has given careful consideration to this recommendation in the light of the report submitted by the General Committee on Bankers' Acceptances and with regard for its previous rulings on similar questions. In accordance with its ruling of June, 1928, approving the general principles laid down in the report of the General Committee on Bankers' Acceptances, the Board now rules that a draft drawn by the purchaser of goods in accordance with the typical statement of facts assumed above, is eligible for acceptance by a member bank when it has a maturity consistent with the usual and customary credit time prevailing in the particular business, and provided that all other relevant requirements of the law and of the Board's Regulations are complied with. Under the facts stated the accepting bank has possession of the bill of lading at the time of the acceptance of the draft drawn upon it, and this is believed to be a substantial compliance with the requirement of the law that shipping documents conveying or securing title be attached at the time of acceptance. From a practical standpoint it enables the bank to retain a more effective lien upon the release of the goods to the purchaser on a trust receipt.

The ruling of the Federal Reserve Board set forth above may be in some respects inconsistent with previous rulings of the Board to the effect that bankers' acceptance credits should not be used for the purpose of furnishing working capital. (See for example, 1920 Federal Reserve Bulletin, page 1301; 1923 Federal Reserve Bulletin, page 158). Such previous rulings of the Board with regard to working capital may accordingly be regarded as superseded or qualified by the ruling contained herein to the extent of any such inconsistencies, but no further.

The Federal Reserve Board has not taken action on the proposal to permit bankers' acceptances against readily marketable staples placed with an independent converter or processor who gives a proper receipt therefor as illustrated by the facts of the sixth specific example submitted to the Board.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.