

# FEDERAL RESERVE BOARD

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WASHINGTON

X-6611

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

June 3, 1930.

SUBJECT: Amendment to Regulation A, Series of 1930.

Dear Sir:

There is enclosed herewith a copy of Regulation A, Series of 1930, which has been tentatively adopted by the Federal Reserve Board. The amendments embodied in this new Regulation are as follows:

1. In subsection (d) of Section I so as to conform to the Act of April 12, 1930, which amended the fourth paragraph of Section 13 of the Federal Reserve Act so as to permit Federal reserve banks to rediscount for member banks the same amount of paper of any one borrower which a national bank is permitted to acquire from a single borrower under the terms of Section 5200 of the Revised Statutes as amended by the McFadden Act.

2. In Section VII so as to conform to the Act of May 29, 1928, which amended the third paragraph of Section 13 so as to permit the rediscount of sight drafts (a) when drawn to cover the shipment of non-agricultural, nonperishable, readily marketable staples as well as nonperishable, readily marketable, staple agricultural products, and (b) when drawn to finance the exportation of such staples as well as the domestic shipment thereof.

3. To conform to the provisions of the Act of June 17, 1929, authorizing the issuance of Treasury bills, by substituting "obligations of the Government of the United States" wherever the Regulation previously contained the words "bonds and notes of the Government of the United States" or "bonds or notes of the United States", and adding a definition of the first phrase by footnote.

The Regulation also embodies the amendment to Section VI (d), of which you were advised in X-6123 dated August 30, 1928, and the amendment to Section XI (3), set out in the Board's letter X-6156 dated October 11, 1928.

Before making this new Regulation effective, the Federal Reserve Board requests that you furnish it, at your earliest convenience, with any comments or suggestions you may have to offer regarding the amendments, or advise it if you feel that they are in satisfactory form.

Very truly yours,

E. M. McClelland,  
Assistant Secretary.

## REGULATIONS OF THE FEDERAL RESERVE BOARD

554

## Regulation A, Series of 1930

(Superseding Regulation A of 1928)

## DISCOUNTS UNDER SECTIONS 13 and 13a

## ARTICLE A

## Notes, Drafts, and Bills of Exchange

## Section I. General Statutory Provisions.

Any Federal reserve bank may discount for any of its member banks any note, draft, or bill of exchange: Provided-

(a) It has a definite maturity at the time of discount of not more than 90 days, exclusive of days of grace; except that (1) if drawn or issued for an agricultural purpose or based on livestock, it may have a maturity at the time of discount of not more than nine months, exclusive of days of grace, and (2) certain bills of exchange payable at sight or on demand are eligible even though they have no definite maturity (see Section VII, below);

(b) It has been issued or drawn for an agricultural, industrial, or commercial purpose, or the proceeds have been used or are to be used for such a purpose, or it is a note, draft, or bill of exchange of a factor issued as such making advances exclusively to producers of staple agricultural products in their raw state;

(c) It was not issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except obligations of the Government of the United States; <sup>1</sup>

<sup>1</sup> When used in this regulation, the words "obligations of the Government of the United States" shall be construed to include only bonds, notes, certificates of indebtedness and Treasury bills of the Government of the United States.

(d) The aggregate of notes, drafts, and bills upon which any person, co-partnership, association, or corporation is liable as maker, acceptor, indorser, drawer, or guarantor, rediscounted for any member bank, shall at no time exceed the amount for which such person, copartnership, association, or corporation may lawfully become liable to a national banking association under the terms of section 5200 of the Revised Statutes, as amended;

(e) It is indorsed by a member bank; and

(f) It conforms to all applicable provisions of this regulation.

No Federal reserve bank may discount for any member State bank or trust company any of the notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association.

Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding 15 days, provided that they are secured by notes, drafts, bills of exchange, or bankers' acceptances which are eligible for discount or for purchase by Federal reserve banks, or by the deposit or pledge of obligations of the Government of the United States.

## Section II. General Character of Notes, Drafts, and Bills of Exchange Eligible.

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for discount at a Federal reserve bank has determined that--

(a) It must be a negotiable note, draft, or bill of exchange which has been issued or drawn, or the proceeds of which have been used or are to be

used in the first instance, in producing, purchasing, carrying, or marketing goods<sup>2</sup> in one or more of the steps of the process of production, manufacture, or distribution, or for the purpose of carrying or trading in obligations of the Government of the United States, and the name of a party to such transaction must appear upon it as maker, drawer, acceptor, or indorser.

(b) It must not be a note, draft, or bill of exchange the proceeds of which have been or are to be advanced or loaned to some other borrower, except as to paper described below under Sections VI (b) and VIII.

(c) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery, or for any other capital purpose.

(d) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for investments of a purely speculative character.

(e) It may be secured by the pledge of goods or collateral of any nature, including paper which is ineligible for discount, provided it (the note, draft, or bill of exchange) is otherwise eligible.

### Section III. Applications for Discount.

Every application for the discount of notes, drafts, or bills of exchange must contain a certificate of the member bank, in form to be prescribed by the Federal reserve bank, that--

(1) To the best of its knowledge and belief, such notes, drafts, or bills of exchange have been issued or drawn, or the proceeds thereof have been or are

<sup>2</sup> When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including livestock.

to be used, for such a purpose as to render them eligible for discount under the terms of this regulation, and

(2) That such notes, drafts, or bills of exchange have not been acquired from a nonmember bank, or, if so acquired, that the applying member bank has received permission from the Federal Reserve Board to discount with the Federal reserve bank paper acquired from nonmember banks.

In the case of a member State bank or trust company, every such application must contain a certificate or guaranty to the effect that the borrower is not liable, and will not be permitted to become liable during the time his paper is held by the Federal reserve bank, to such bank or trust company for borrowed money in an amount greater than that which could be borrowed lawfully from such State bank or trust company were it a national banking association.

#### Section IV. Promissory Notes.

(a) Definition.- A promissory note, within the meaning of this regulation, is defined as an unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer.

(b) Evidence of eligibility and requirement of statements.- A Federal reserve bank must be satisfied by reference to the note or otherwise that it is eligible for discount, and the member bank shall certify in its application whether a financial statement of the borrower is on file with it.

A recent financial statement of the borrower must be on file with the member bank if it has discounted the note for a nondepositor or a nonmember bank, and in all other cases unless--

(1) It is secured by a warehouse, terminal, or other similar receipt covering goods in storage, by a valid prior lien on livestock which is being

marketed or fattened for market, or by obligations of the Government of the United States; or

(2) The aggregate of obligations of the borrower discounted and offered for discount at the Federal reserve bank by the member bank is less than a sum equal to 10 per cent of the paid-in capital of the member bank and is less than \$5,000.

Whenever the borrower has closely affiliated or subsidiary corporations or firms, the borrower's financial statement shall be accompanied by separate financial statements of such affiliated or subsidiary corporations or firms, unless the statement of the borrower clearly indicates that such note is both eligible from a legal standpoint and acceptable from a credit standpoint or unless financial statements of such affiliated or subsidiary corporations or firms are on file with the Federal reserve bank.

A Federal reserve bank shall use its discretion in taking the steps necessary to satisfy itself as to eligibility. Compliance of a note with Section II (c) may be evidenced by a statement of the borrower showing a reasonable excess of quick assets over current liabilities. A Federal reserve bank may, in any case, require the financial statement of the borrower to be filed with it.

#### Section V. Drafts, Bills of Exchange, and Trade Acceptances.

(a) Definition.-- A draft or bill of exchange, within the meaning of this regulation, is defined as an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person; and a trade

acceptance is defined as a draft or bill of exchange, drawn by the seller on the purchaser of goods sold,<sup>3</sup> and accepted by such purchaser.

(b) Evidence of eligibility and requirement of statements.-- A Federal reserve bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the draft, bill, or trade acceptance offered for discount and may require a recent financial statement of one or more parties to the instrument. The draft, bill, or trade acceptance should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor or drawer in a form satisfactory to the Federal reserve bank.

#### Section VI. Agricultural Paper

(a) Definition.-- Agricultural paper, within the meaning of this regulation, is defined as a negotiable note, draft, or bill of exchange issued or drawn, or the proceeds of which have been or are to be used, for agricultural purposes, including the production of agricultural products, the marketing of agricultural products by the growers thereof, or the carrying of agricultural products by the growers thereof pending orderly marketing, and the breeding, raising, fattening, or marketing of livestock, and which has a maturity at the time of discount of not more than nine months, exclusive of days of grace.

(b) Paper of cooperative marketing associations.-- Under the express terms of section 13a, notes, drafts, bills of exchange, or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products are deemed to have been issued or drawn for an agricultural

<sup>3</sup> A consignment of goods or a conditional sale of goods can not be considered "goods sold" within the meaning of this clause. The purchase price of goods plus the cost of labor in effecting their installation may be included in the amount for which the trade acceptance is drawn.

purpose, if the proceeds thereof have been or are to be--

(1) Advanced by such association to any members thereof for an agricultural purpose; or

(2) Used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association; or

(3) Used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members.

These are not the only classes of paper of such associations which are eligible for discount, however, and any other paper of such associations which complies with the applicable requirements of this regulation may be discounted on the same terms and conditions as the paper of any other person or corporation.

Paper of cooperative marketing associations the proceeds of which have been or are to be used (1) to defray the expenses of organizing such associations, or (2) for the acquisition of warehouses, for the purchase or improvement of real estate, or for any other permanent or fixed investment of any kind, are not eligible for discount, even though such warehouses or other property are to be used exclusively in connection with the ordinary operations of the association.

(c) Eligibility.-- To be eligible for discount, agricultural paper, whether a note, draft, bill of exchange, or trade acceptance, must comply with the respective sections of this regulation which would apply to it if its maturity were 90 days or less.

(d) Discounts for Federal intermediate credit banks.-- Any Federal reserve bank may discount agricultural paper for any Federal intermediate credit bank;



but no Federal reserve bank shall discount for any Federal intermediate credit bank any such paper which bears the indorsement of any nonmember State bank or trust company which is eligible for membership in the Federal reserve system under the terms of section 9 of the Federal Reserve Act as amended. In discounting such paper each Federal reserve bank shall give preference to the demands of its own member banks and shall have due regard to the probable future needs of its own member banks. Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount paper for any Federal intermediate credit bank when its own reserves amount to less than 50 per cent of its own aggregate liabilities for deposits and Federal reserve notes in actual circulation. Except with the permission of the Federal Reserve Board, the aggregate amount of paper discounted by all Federal reserve banks for any one Federal intermediate credit bank shall at no time exceed an amount equal to the paid-up and unimpaired capital and surplus of such Federal intermediate credit bank.

(e) Limitations.-- The Federal Reserve Board prescribes no limitation on the aggregate amount of notes, drafts, bills of exchange, and acceptances with maturities in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by any Federal reserve bank; but the aggregate amount of notes, drafts, bills of exchange, and acceptances with maturities in excess of six months, but not exceeding nine months, which may be discounted by any Federal reserve bank shall not exceed 10 per cent of its total assets.

Section VII. Sight Drafts Secured by Bills of Lading.

A Federal reserve bank may discount for any of its member banks bills of exchange payable at sight or on demand which-

(a) Grow out of the domestic shipment or the exportation of nonperishable, readily marketable staples; and

(b) Are secured by bills of lading or other shipping documents conveying or securing title to such staples.

All such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made promptly, unless the drawer instructs that they be held until arrival of car, in which event they must be presented for payment within a reasonable time after notice of arrival of such staples at their destination has been received. In no event shall any such bill be held by or for the account of a Federal reserve bank for a period in excess of 90 days.

In discounting such bills Federal reserve banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the amount thus deducted after payment of such bills to conform to the actual life thereof.

Section VIII. Factors' Paper.

Notes, drafts, and bills of exchange of factors issued as such for the purpose of making advances exclusively to producers of staple agricultural products in their raw state are eligible for discount with maturities not in excess of 90 days, exclusive of days of grace, irrespective of the requirements of Sections II (a) and II (b).

Section IX. Paper Acquired From Nonmember Banks.

(a) Except with the permission of the Federal Reserve Board, no Federal

reserve bank shall discount any paper acquired by a member bank from a non-member bank or bearing the signature or indorsement of a nonmember bank; except that Federal reserve banks may discount bankers' acceptances and other eligible paper bearing the signature or indorsement of a nonmember bank, if such paper was bought by the offering bank in good faith on the open market from some party other than the nonmember bank.

(b) Applications for permission to rediscount paper acquired from nonmember banks shall be made in writing by the member banks which desire to offer such paper for rediscount and shall state fully the facts which gave rise to each application and the reasons why the applying member banks feel justified in seeking such permission. Such applications shall be addressed to the Federal Reserve Board, but shall be filed with the Federal reserve agent, who shall forward them promptly to the Federal Reserve Board with his recommendations.

(c) The Federal Reserve Board hereby grants its permission for Federal reserve banks to discount for member banks paper bearing the signature or indorsement of Federal intermediate credit banks, if such paper is otherwise eligible under the law and this regulation.

ARTICLE B.

Bankers' Acceptances<sup>4</sup>

Section X. Definition.

A banker's acceptance within the meaning of this regulation is defined as a draft or bill of exchange, whether payable in the United States or abroad and whether payable in dollars or some other money, of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged generally in the business of granting bankers' acceptance credits.

<sup>4</sup> For regulations governing the acceptance by member banks of drafts and bills of exchange drawn on them, see Regulation C, p.12.

Section XI. Eligibility.

A Federal reserve bank may discount any such bill bearing the indorsement of a member bank and having a maturity at the time of discount not greater than that prescribed by Section XII (a), which has been drawn under a credit opened for the purpose of conducting or settling accounts resulting from a transaction or transactions involving any one of the following:

- (1) The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries, or between dependencies or insular possessions and foreign countries;
- (2) The shipment of goods within the United States, provided shipping documents conveying security title are attached at the time of acceptance; or
- (3) The storage in the United States or in any foreign country of readily marketable staples,<sup>5</sup> 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 grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may 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.

Provided, That acceptances for any one customer in excess of 10 per cent of the capital and surplus of the accepting bank must remain actually secured

<sup>5</sup> A readily marketable staple within the meaning of these regulations may be defined as an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time.

throughout the life of the acceptance, and in the case of the acceptances of member banks this security must consist of shipping documents, warehouse receipts, or other such documents, or some other actual security growing out of the same transaction as the acceptance, such as documentary drafts, trade acceptances, terminal receipts, or trust receipts which have been issued under such circumstances, and which cover goods of such a character, as to insure at all times a continuance of an effective and lawful lien in favor of the accepting bank, other trust receipts not being considered such actual security if they permit the customer to have access to or control over the goods.

A Federal reserve bank may also discount any bill drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange as provided in Regulation C, provided that it has a maturity at the time of discount of not more than three months, exclusive of days of grace.

#### Section XII. Maturities.

(a) Legal requirements.-- No such acceptance is eligible for discount which has a maturity at the time of discount in excess of 90 days' sight, exclusive of days of grace, except that acceptances drawn for agricultural purposes and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with maturities at the time of discount of not more than six months' sight, exclusive of days of grace.

(b) General conditions as to maturity of domestic acceptances.-- Although a Federal reserve bank may legally discount an acceptance having a maturity at the time of discount not greater than that proscribed under (a), it may decline to discount any acceptance the maturity of which is in excess of the usual or customary period of credit required to finance the underlying

transaction or which is in excess of that period reasonably necessary to finance such transaction. Since the purpose of permitting the acceptance of drafts secured by warehouse receipts or other such documents is to permit of the temporary holding of readily marketable staples in storage pending a reasonably prompt sale, shipment, or distribution, no such acceptance should have a maturity in excess of the time ordinarily necessary to effect a reasonably prompt sale, shipment, or distribution into the process of manufacture or consumption.

### Section XIII. Evidence of Eligibility

A Federal reserve bank must be satisfied, either by reference to the acceptance itself or otherwise, that the acceptance is eligible for discount under the terms of the law and the provisions of this regulation. The bill itself should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal reserve bank.