

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-6697

September 6, 1930.

**SUBJECT:** Eligibility for rediscount of acceptances for Grain Stabilization Corporation.

Dear Sir:

There is enclosed for your information a copy of a letter addressed by the Federal Reserve Board to Hon. Alexander Legge, Chairman of the Federal Farm Board with respect to the eligibility for rediscount by Federal reserve banks of certain bankers' acceptances proposed to be issued under acceptance credits to be granted to the Grain Stabilization Corporation by a number of accepting banks in accordance with the terms of an agreement between the Grain Stabilization Corporation, the Continental Illinois Bank and Trust Company of Chicago, as corporate trustee, Mr. William P. Kopf, of Chicago, Illinois, as individual trustee, various accepting banks, and the Federal Farm Board, which agreement is summarized in the letter.

By Order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,  
Assistant Secretary.

Enclosures.

TO GOVERNORS AND CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

COPY

X-6697-a

September 5, 1930.

Hon. Alexander Legge, Chairman,  
Federal Farm Board,  
Washington, D. C.

Sir:

I have the honor to advise you that bankers' acceptances drawn by The Grain Stabilization Corporation with maturities not in excess of ninety days, secured by warehouse receipts, shipping documents and other similar documents of title for readily marketable staples, and accepted by responsible banks or bankers in accordance with the Federal Reserve Board's understanding of the terms of the tentative agreement enclosed in your letter of August 29, 1930, are eligible for rediscount by Federal reserve banks when presented for rediscount in the usual manner with the endorsement of a member bank of the Federal Reserve System other than the accepting bank.

The Board's understanding of the agreement under which these acceptances are to be issued and the other relevant facts pertaining thereto are stated in a more detailed memorandum enclosed herewith.

By Order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,  
Assistant Secretary.

Enclosure.

C O P Y

X-6697-b

September 4, 1930.

Hon. Alexander Legge, Chairman,  
Federal Farm Board,  
Washington, D. C.

Sir:

The Federal Reserve Board has received your letter of August 29th inquiring whether certain bankers' acceptances proposed to be issued under acceptance credits to be granted to The Grain Stabilization Corporation by a number of accepting banks in accordance with the terms of a tentative draft of an agreement between The Grain Stabilization Corporation, the Continental Illinois Bank and Trust Company of Chicago, Illinois, as corporate trustee, Mr. William P. Kopf of Chicago, Illinois, as individual trustee, various accepting banks, and the Federal Farm Board, will be eligible for rediscount by Federal reserve banks.

From the tentative draft of this proposed agreement enclosed in your letter, it appears that:

1. The Grain Stabilization Corporation will request a number of different accepting banks to establish in its favor acceptance credits which shall not exceed in the aggregate the sum of \$30,000,000 at any one time outstanding, such credits to be availed of by drafts payable not more than ninety days after sight drawn from time to time by The Grain Stabilization Corporation upon the respective accepting banks and accepted by such accepting banks, no draft to mature later than July 31, 1931.

2. In order to secure the accepting banks against loss, the Stabilization Corporation will deliver to the trustees only the following documents of title for wheat:

- (a) Negotiable domestic railroad bills of lading;
- (b) Negotiable domestic or foreign steamship bills of lading;
- (c) Negotiable warehouse receipts issued by warehouses in terminal markets which are bonded and under Federal or State license;
- (d) Custodian certificates issued by the Board of Trade of the City of Chicago.

3. The Stabilization Corporation will at all times have in

the possession of the trustees as security documents of title for wheat having a market value equal to 125% of the total face amount of acceptances outstanding (including those forwarded for acceptance), less the amount of any cash deposited by the Stabilization Corporation with the trustees.

4. All drafts drawn by the Stabilization Corporation for acceptance by any of the accepting banks will be payable in dollars a certain number of days after date to the order of the Stabilization Corporation at the Continental Illinois Bank and Trust Company and will be duly endorsed in blank by the Stabilization Corporation.

5. All such drafts will be delivered by the Stabilization Corporation with written forwarding directions to the trustees, which, after registering them and placing an identifying number on them, will forward them to the respective accepting banks for acceptance; and all banks accepting drafts so identified and registered by the trustees will be entitled to the security afforded by the agreement and by the pledge from time to time of documents of title for wheat, money, or other things pursuant to the agreement.

6. The holders of the drafts accepted under this agreement (other than the bank which has accepted the same) must look solely to the general credit of the particular bank which accepted such drafts and will have no rights whatsoever in or to the collateral deposited pursuant to this agreement, such collateral being deposited solely for the benefit and protection of the accepting banks.

7. The Stabilization Corporation agrees to deposit with the corporate trustee for the account of the respective accepting banks Chicago funds in cash equal to the face amount of drafts accepted by the respective accepting banks on the date of the respective maturities of such drafts, together with any charges and expenses which shall have accrued thereon; and the corporate trustee will notify the respective accepting banks of the receipt of such deposit and request forwarding instructions.

8. Each accepting bank, regardless of priority and time of acceptance, will be secured equally and ratably in proportion to its acceptances executed under this agreement, except as to acceptances for which cash has been deposited as provided in the agreement.

9. The Federal Farm Board has loaned and/or will loan further sums to the Stabilization Corporation to be secured by a lien on said security subordinate in all respects to the lien of the accepting banks.

10. The Stabilization Corporation warrants and agrees that all wheat pledged under this agreement and all documents of title therefor shall be free of all liens, claims and encumbrances whatsoever, and that, except for the lien created by the agreement, it will at all times have full and absolute title to such wheat and the documents of title therefor and will maintain full insurance covering all wheat so pledged against all customary risks, including fire, lightning and tornado.

11. The Stabilization Corporation will have the right (a) to

obtain the release of any documents of title pledged under this agreement by depositing with the trustees cash equal to 80% of the then market value thereof, (b) to regain possession of any cash so deposited with the trustees (except cash deposited to pay maturing acceptances) by depositing with the trustees documents of title having a market value equal to 125% of the amount of cash to be withdrawn, and (c) to substitute for documents of title held by the trustees other documents of title representing wheat of a value equal to that represented by the documents of title withdrawn.

12. Whenever the value of the wheat pledged falls below 125% of the total face value of outstanding acceptances (less the amount of cash deposited), the trustees may demand additional collateral; and whenever the current market value of the wheat pledged exceeds such amount, the Stabilization Corporation with the concurrence of the Federal Farm Board, may obtain the release of such excess.

13. Upon the failure of the Stabilization Corporation to deposit with the corporate trustee for the account of any accepting bank cash equal to the face amount of any drafts accepted on the maturity date thereof, or upon other default on the part of the Stabilization Corporation, the trustees in their discretion may, and upon the request of accepting banks which have accepted 25% or more of the total face amount of outstanding acceptances shall, accelerate and mature immediately the obligations of the Stabilization Corporation to pay to the accepting banks the full face value of all outstanding drafts, and thereupon the trustees are authorized to sell any or all of the pledged property at public or private sale and to apply the net proceeds of such sale pro rata toward the payment of the obligations of the Stabilization Corporation to the accepting banks, whether the acceptances are due or not, and to pay any surplus thereover first to the Federal Farm Board and then to the Stabilization Corporation as their respective interests may appear.

14. The accepting banks will have the right to proceed directly against the Stabilization Corporation by suit or otherwise for any failure to place them in funds to meet the payment of acceptances, but shall have no right to enforce their rights against the collateral except through the trustees as provided in the agreement.

15. The trustees shall hold all collateral pledged with them first for the security and protection of the accepting banks and then for the security and protection of the Federal Farm Board.

16. The agreement is subject to amendment by the concurrence of the trustees, the Stabilization Corporation, the Federal Farm Board, and the accepting banks which at the time of such amendment have accepted a majority or more in face value of the acceptances then outstanding for which funds have not been furnished to such accepting banks by the Stabilization Corporation.

The above is not intended as a complete statement of the provisions of the tentative draft of the agreement enclosed in your letter; but it indicates the Federal Reserve Board's understanding as to the

essential features of the plan under which proposed acceptances are to be issued.

While it is not so stated in the agreement, it is assumed for the purpose of this ruling that (a) all warehouse receipts pledged with the trustees pursuant to this agreement will be issued by warehouses independent of the Grain Stabilization Corporation within the meaning and intent of the Regulations and rulings of the Federal Reserve Board, and (b) that the custodian certificates issued by the Board of Trade of the City of Chicago which are pledged with the trustees either are in legal effect warehouse receipts issued by independent warehousemen or are otherwise sufficient to vest in the holders valid title to the grain for which they are issued or a valid lien thereon good and enforceable as against all other parties.

In the first clause of the preamble of the agreement it is stated that the drafts will be payable not more than ninety days after sight; but in Article 1 it is stated that the drafts so accepted shall have maturities not exceeding six months after sight. The Federal Reserve Board understands, however, and assumes for the purpose of this ruling, that no drafts will be accepted with maturities in excess of ninety days. This is not intended as a ruling to the effect that drafts with maturities in excess of ninety days would be ineligible for rediscount by Federal reserve banks, but is intended only to avoid for the present the necessity of making any ruling on the apparently academic question whether drafts having a maturity in excess of ninety days would be eligible for rediscount.

One purpose of the requirement of the Federal Reserve Act that, in order to be eligible for acceptance by member banks or for rediscount by Federal reserve banks, drafts growing out of the storage of readily marketable staples must be secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title is to enable the accepting banks effectively to require that they be provided with funds with which to pay the acceptances on or before their maturity; and the Board's regulations require that the acceptor remain secured throughout the life of the acceptance. The provision contained in Article 13 of the tentative draft of the agreement substantially to the effect that the trustees cannot be required to sell any of the collateral in order to provide funds to pay maturing acceptances except at the request of banks which have accepted 25% or more of the total volume of acceptances issued pursuant to the agreement, is inconsistent with these provisions of the law and of the Board's regulations. The Board is of the opinion, therefore, that these acceptances should not be considered eligible for rediscount by Federal reserve banks unless this provision of the agreement is modified so as to provide in substance that, upon the failure of the Stabilization Corporation to deposit with the corporate trustee funds sufficient to pay maturing acceptances at maturity, the accepting bank shall have the right, without the concurrence of any other bank, to require that sufficient collateral be sold to provide funds adequate for this purpose and that it shall be the duty of the corporate trustee immediately to sell sufficient collateral and to pay over to the bank requesting it a sufficient amount of

the proceeds thereof to enable it to meet any and all matured acceptances issued by it pursuant to this agreement. The Board understands that it will be possible to modify the agreement to this extent and is ruling upon the question presented with the understanding that the agreement will be so modified.

If the agreement is modified in the manner suggested in the preceding paragraph, and if bankers' acceptances are issued, secured, and drawn in full compliance with the Federal Reserve Board's understanding of the proposed plan and the facts pertaining thereto as stated in this letter, the Federal Reserve Board is of the opinion that such acceptances will be eligible for rediscount by Federal reserve banks when they have maturities not in excess of ninety days and when they are offered for rediscount in the usual manner with the endorsement of a member bank of the Federal Reserve System other than the accepting bank.

While such acceptances will be deemed eligible for rediscount by Federal reserve banks, it should be clearly understood that the Federal reserve banks are not required to rediscount them but may decline to do so in the exercise of their banking discretion. In view of the large volume of acceptances proposed to be issued, therefore, it is suggested that it would be advisable to consult with, and ascertain the attitude of, the Federal reserve banks to which it is expected that these acceptances will be offered for rediscount, before the proposed plan is definitely adopted.

In your letter of August 29th it is stated that an identical arrangement, except as to certain provisions as to hedging wheat, will be entered into by the Farmers National Grain Corporation; but you do not specifically request a ruling at this time with reference to acceptances growing out of that arrangement. The Federal Reserve Board, however, will be glad to rule upon the eligibility of such acceptances upon being informed as to the nature of the provisions regarding the hedging of wheat and as to any other respects in which that agreement as finally prepared may differ from the agreement prepared on behalf of the Grain Stabilization Corporation.

By Order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,  
Assistant Secretary.