



FEDERAL RESERVE BANK
OF DALLAS

Circular No. 35
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May 27, 1921.

SUPREME COURT DECISION IN PAR CLEARING SUIT

TO THE BANK ADDRESSED:

The decision of the Supreme Court of the United States in the case of the American Bank and Trust Company, et al. vs. the Federal Reserve Bank of Atlanta, Georgia, et al., upholds the Federal Reserve Bank's contention that the matter involved is within the jurisdiction of the United States District Court, but denies the Federal Reserve Bank's motion to dismiss plaintiff's complaint.

The decision does not deny the legal authority of Federal Reserve Banks to collect checks on nonmember banks by making presentation thereof at the bank's counters, but holds merely that the nonmember banks may be entitled to relief if they can prove Federal Reserve Banks' intent to accumulate checks for presentation for the sole purpose of injuring banks upon which checks are drawn. The Supreme Court said:

"The question at this stage is not what the plaintiffs may be able to prove or what may be the reasonable interpretation of the defendants' acts, but whether the plaintiffs have shown a ground for relief, if they can prove what they allege."

The United States Supreme Court's decision will not interfere with the present check clearing functions of Federal Reserve Banks, which can continue as heretofore in the collection of checks drawn upon those banks which are listed upon the Federal Reserve Banks' par list.

It has never been the policy or practice of the Federal Reserve Bank of Dallas to accumulate checks of nonmember banks, but on the contrary it has been, and will continue to be, our policy to forward, by mail, on date of receipt, checks of nonmember banks either to a member bank in the same town or directly to the nonmember bank on which drawn, unless such nonmember bank, (1) has refused to remit at par for its own items; (2) has failed to remit promptly in acceptable exchange for its own items; or (3) is in such an unsatisfactory conditions as to make it undesirable to send the items directly to it. However, we are compelled to collect items drawn on nonmember banks through agencies other than the mails, when conditions similar to those recited above make it necessary, in order that our interests as well as those of our endorsers may be properly protected.

THE FEDERAL RESERVE BANK CANNOT PAY EXCHANGE TO ANY MEMBER OR NONMEMBER BANK FOR REMITTING FOR CHECKS WHICH ARE DRAWN UPON THEM.

Respectfully,

A handwritten signature in cursive script, reading "R. L. Van Zandt".

Governor.