

FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, April 20, 1948

**PROPOSED PROCEDURE FOR CONDITIONAL PAYMENT OF CHECKS
AND DELAYED RETURN OF UNPAID ITEMS**

**To the Member and Nonmember Clearing Banks
in the Eleventh Federal Reserve District:**

There is reproduced below, for your information, the text of the statement issued by the Board of Governors of the Federal Reserve System with respect to proposed amendments to its Regulation J, relating to the clearing and collection of checks by the Federal Reserve banks:

Within the last few years, many banks have adopted the practice of "delayed posting" of checks or of making conditional payment for checks subject to the right to return dishonored items on the business day next following the receipt of such checks. These practices have been recognized by the enactment of statutes in a number of States and by rules adopted by numerous clearing house associations.

Recently, the American Bankers Association recommended to the Federal Reserve System that amendments be made to Regulation J of the Board of Governors of the Federal Reserve System and to the circulars or operating letters of the Federal Reserve banks governing check collections in order to authorize a procedure for the conditional payment of cash items presented by Federal Reserve banks subject to the right to return and reclaim payment for unpaid items on the next succeeding business day after their receipt by drawee banks.

Accordingly, after discussion of this matter with the Presidents of the Federal Reserve banks, the Board is publishing in the Federal Register on or about April 15, 1948, notice of a proposal to adopt certain amendments to its Regulation J, relating to the clearing and collection of checks by the Federal Reserve banks. In effect, the proposed amendments would permit a drawee bank to which a Federal Reserve bank sends a check for collection, if remittance is made on the day of receipt, to return the check for credit or refund at any time up to midnight of the drawee's next business day following receipt of the check. A copy of the notice to be published in the Federal Register, including the proposed amendments, is attached. As stated in that notice, interested persons may submit written comments with respect to the proposed amendments not later than May 17, 1948.

It is to be noted that the amendments which are now proposed will become effective only upon their formal adoption by the Board of Governors at a later date and after due notice to persons concerned through subsequent publication in the Federal Register.

In connection with this matter, it is understood that the American Bankers Association at the appropriate time will communicate with all banks relative to their contracts with their depositors, as represented by legends on deposit slips or otherwise, in order that such contracts may afford banks adequate protection with respect to such conditional payment procedure. It is also understood that the Association will encourage State legislation authorizing a procedure for the conditional payment of checks and the return of unpaid items on the next succeeding business day and will draft a model statute providing for such procedure.

A copy of the notice, referred to in the foregoing statement, is printed on the reverse side of this circular.

Yours very truly,

R. R. GILBERT

President

REGULATION J.—CHECK CLEARING AND COLLECTION

Notice of Proposed Amendments

Pursuant to section 4 of the Administrative Procedure Act and section 2 of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 1946 Supp. 262.2), notice is hereby given of the proposed adoption by the Board of Governors of the Federal Reserve System of certain amendments to Regulation J, relating to the clearing and collection of checks by Federal Reserve banks. Authority for the adoption of such amendments is contained in sections 11(i), 13, and 16 of the Federal Reserve Act (U.S.C., title 12, secs. 248(i), 248(o), 342, and 360.)

Interested persons may submit data, views or arguments with respect to the proposed amendments; and such material should be submitted in writing. Although submittals or requests may be sent directly to the Board, it is preferable that they be sent to the Federal Reserve bank of the district, which will forward them to the Board. To be considered, all material must be received not later than May 17, 1948.

The proposed amendments to Regulation J would be substantially as follows:

1. Paragraph (2) of section 5 would be amended by adding at the end of such paragraph the following sentence:

A Federal Reserve bank, or any agent to which such checks are forwarded by a Federal Reserve bank, may present such checks pursuant to any special collection agreement not inconsistent with the terms of this regulation or may present them through a clearing house or clearing house association subject to the rules and practices thereof.

2. Section 5 would be amended by inserting therein a new paragraph (4) reading as set forth below and by changing the designations of present paragraphs (4) to (8), inclusive, so that such paragraphs will be designated (5) to (9), inclusive:

(4) Any check which a Federal Reserve bank or an agent thereof presents to the drawee bank for payment or sends to the drawee bank for collection, and for which remittance or settlement is made by the drawee bank on the day on which it receives³ such check, may be returned for credit or refund at any time prior to midnight of the drawee's next business day following such day of receipt or prior to the time provided by applicable clearing house rule or special collection agreement, whichever is earlier, except that this paragraph shall not apply to checks presented over the counter.

³ A check received by a drawee bank on a day other than a business day or received on a business day after its regular business hours shall be deemed to have been received on the next succeeding business day.

3. Section 6 would be amended to read as follows:

Each Federal Reserve bank may also promulgate rules not inconsistent with the terms of the law or of this Regulation, governing the details of its operations in clearing and collecting checks and other cash items. Such rules shall be set forth by the Federal Reserve bank in its letters of instruction to its member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any check or other cash item to such Federal Reserve bank for collection or to any other Federal Reserve bank for the account of such Federal Reserve bank for collection.