

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-110  
September 23, 1983

REGULATION J

COLLECTION OF CHECKS AND OTHER  
ITEMS AND WIRE TRANSFER OF FUNDS

(Proposed Amendment)

TO ALL DEPOSITORY INSTITUTIONS IN THE  
ELEVENTH FEDERAL RESERVE DISTRICT:

The Federal Reserve Board is proposing to amend Regulation J to permit Reserve Banks to charge for checks that would be presented for collection to a bank or other depository institution that is closed on a weekday during which the local Reserve Bank is open. Such closings may result in Federal Reserve float.

The Federal Reserve proposes to eliminate this float by charging accounts of the closed institutions for the checks that would have been presented had the institution been open, or, at the option of the closed institution, by charging for the value of the float associated with such checks. The Board's press release and Federal Register document concerning the proposed amendment are enclosed.

Comments on the proposed amendment must be received by the Board of Governors by October 14, 1983. Comments should refer to Docket No. 481, and may be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551.

Questions concerning this proposal should be directed to Donald L. Jackson, (214) 651-6118 at the Head Office; Robert W. Schultz, (915) 544-4730 at the El Paso Branch; Vernon L. Bartee, (713) 659-4433 at the Houston Branch; or John A. Bullock, (512) 224-2141 at the San Antonio Branch.

Additional copies of this circular will be furnished upon request to the Public Affairs Department, Extension 6289.

Sincerely yours,



William H. Wallace  
First Vice President

# FEDERAL RESERVE press release



For immediate release

September 14, 1983

The Federal Reserve Board today announced that it is proposing to amend its Regulation J -- Collection of Checks and Other Items and Wire Transfer of Funds -- to permit Reserve Banks to charge for checks that would be presented for collection to a bank or other depository institution that is closed on a weekday during which the Reserve Bank is open.

The Board requested comment by October 14, 1983.

The proposed amendment would affect institutions that (1) choose to close on a weekday as permitted by State law or that (2) are closed on a "nonstandard" holiday (a State or local holiday) during which the relevant Reserve Bank is open for business.

Such closings may result in Federal Reserve float -- the value of checks for which the Federal Reserve has given credit to the institution that sent the checks to the Federal Reserve for collection, but for which the Federal Reserve has not yet collected from the institution on which the checks are drawn (the paying institution). It is estimated that such midweek and nonstandard holiday closings result in Federal Reserve float of approximately \$120 million a day on the average.

The Federal Reserve proposes to eliminate this float by charging accounts of the closed institutions for the checks that would have been presented had the institution been open or, at the option of the closed institution, charge for the value of the float associated with such checks.

The Board originally proposed this change in April 1982, but after review of comment received decided not to approve the proposal. Instead, the Board approved alternative procedures to eliminate Federal Reserve float arising from midweek closings and nonstandard holidays. However, concerns have been expressed that the alternative procedures to reduce such float are operationally difficult to implement and inequitable for some institutions.

Further, there has been a substantial decline in the levels of Federal Reserve float arising from these closings. Consequently, potential operational effects of this proposal on paying depository institutions has been greatly reduced.

The Board's notice resubmitting the proposal for comment is attached.

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Attachment

FEDERAL RESERVE SYSTEM

REGULATION J

[12 C.F.R. PART 210]

[Docket No. R-0481]

COLLECTION OF CHECKS AND OTHER ITEMS AND  
WIRE TRANSFER OF FUNDS

Midweek Closings and Nonstandard Holidays

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rule.

SUMMARY: The Board proposes to amend subpart A of Regulation J, governing the collection of checks and other items by Federal Reserve Banks, to permit a Reserve Bank to charge a paying bank for cash items made available to it by a Reserve Bank on a weekday that is a banking day for the Reserve Bank but not for the paying bank. Such days consist of "midweek closing days"--regular weekdays on which a depository institution chooses to close as permitted by state law and "nonstandard holidays"--days on which the paying bank is closed because of a state or local holiday but on which the Reserve Bank is open, generally because it is located in a different state or locality. Such payment would be required as a condition of Reserve Bank handling of items payable by the paying bank. A paying bank would not be required to open or to begin processing the items on such a weekday closing day, because the time for return of the items would not begin to run until the paying bank's next banking day. The Board has previously proposed this amendment to Regulation J for public comment in April 1982.

DATE: Comments must be received by October 14, 1983.

ADDRESS: Comments, which should refer to Docket No. 0481, may be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m. Comments received

may also be inspected at Room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information, 12 C.F.R. § 261.6(a).

FOR FURTHER INFORMATION CONTACT: Elliott C. McEntee, Assistant Director (202/452-2231) or Morgan J. Hallmon, Program Manager, Payments Mechanism Planning (202/452-3878), Division of Federal Reserve Bank Operations; Gilbert T. Schwartz, Associate General Counsel (202/452-3625), Daniel L. Rhoads, Attorney (202/452-3711), or Robert G. Ballen, Attorney (202/452-3265), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: Background. The Monetary Control Act of 1980 (P. L. 96-221) ("MCA") requires that fees be established for Federal Reserve Bank services. The MCA requires that the Federal Reserve price for Federal Reserve float that remains after operational means to reduce float are implemented.<sup>1/</sup>

In April 1982, the Board requested public comment on a proposal to amend Regulation J to require a depository institution to pay for checks delivered or made available to it on days the institution is closed and on which the Reserve Bank is open. Such days consist of "midweek closing days"--regular weekdays on which a depository institution chooses to close as permitted by state law and "nonstandard holidays"--days on which the paying institution is closed because of a state or local holiday. The proposal was intended to eliminate the float that results from granting credit to the sender for checks that could not be charged to the closed paying institution.

After review of the comments and issues raised therein, the Board in April 1983 decided not to adopt the proposed amendment. The Board noted at that time that the primary impact of the midweek closing proposal would be on small institutions in small communities that are closed during the week. The Board also determined that adoption of the proposal could adversely affect the operations of some small institutions. There was no evidence to suggest that the

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<sup>1/</sup> 126 Cong. Rec. S3167 (daily ed. March 27, 1980) (Statement of Senator Proxmire).

bulk of these institutions were closed to avoid paying for checks or to create Federal Reserve float. Finally, depository institutions closed on nonstandard holidays generally do not have the opportunity to remain open.

Rather than adopt the proposal, the Board provided the Reserve Banks with three options to eliminate or price float arising from midweek closings and nonstandard holidays. First, a Reserve Bank could modify its availability schedule for deposits of local depositors so that credit for checks drawn on closed institutions would be deferred one additional day.<sup>2/</sup> Second, a Reserve Bank could modify its current practice of posting funds received for the account of the institution on the day the institution is closed. Third, a Reserve Bank could price all or any remaining float arising from midweek closings or nonstandard holidays by adding the value of this float to the cost of the check collection service. These procedures are scheduled to be effective October 1, 1983.

As Reserve Banks have begun preparations to implement those procedures, several of them have indicated that depository institutions have raised concerns regarding all three of the alternative procedures. With regard to the alternative of modifying availability schedules for local depositors to delay credit for checks they deposit that are drawn on closed institutions, concerns have been raised as to the inequitable treatment of the local depositor relative to other depositors. Under this alternative, a local depositor would receive credit for its deposit of a check drawn on a closed institution one day later than would a non-local depositor of the same check. In addition, there has been some indication that this alternative is likely to result in circuitous routing as checks drawn on closed banks are sent for collection through non-local depository institutions for whom credit is not deferred.

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<sup>2/</sup> It was determined at that time that it would be operationally infeasible for Reserve Banks to delay credit on interterritory checks drawn on closed banks because each Reserve Bank would be required to keep track of every bank in the country that is closed.

Equity considerations have also been raised concerning the alternative of adding the value of this float to the cost of the check collection service. Forty percent of the depository institutions that close midweek are located in the Chicago Federal Reserve District, and 35 percent are located in the Atlanta Federal Reserve District. Concern has been expressed that it is unfair for depository institutions that do not choose to close midweek to bear a substantial portion of the float cost of midweek closing simply because they are located in a Reserve District with a disproportionately large number of institutions that voluntarily close midweek. Local institutions would bear a disproportionate amount of the float cost because most of the checks deposited by a depository institution with the Federal Reserve for collection are drawn on another institution located in the same Federal Reserve office territory.

With regard to the alternative of deferring credits received for the account of the institution on the day the institution is closed, it has been suggested that closed institutions will avoid this deferral by directing their credits through correspondents.

In addition, the impact of the proposed amendment to Regulation J on paying banks may have changed since Board consideration of this matter in April 1983 in view of the substantial reduction in float resulting from midweek closings and nonstandard holidays. In 1982, float resulting from midweek closings was estimated to be \$160 million (daily average) and float resulting from nonstandard holidays was estimated to be \$100 million (daily average). Recent data indicate, however, that float resulting from midweek closings has fallen to \$110 million (daily average) and float resulting from nonstandard holidays has fallen to under \$10 million (daily average). This reduction results in a corresponding reduction in the burden on payor banks of the proposal to amend Regulation J to charge the payor bank for this float.

Board's proposal. Accordingly, the Board has determined to republish for public comment the proposed amendment of Regulation J to permit Reserve Banks to charge a depository institution for checks drawn or made available to it on days the institution is closed and on which the Reserve Bank is open. This republication will provide an opportunity for paying banks and others to reassess the impact of the proposed amendment to Regulation J in view of the recent reduction in float arising from midweek closings and nonstandard holidays.

In view of the concerns previously expressed by paying banks that charging their accounts for these items could have an adverse effect upon the management of their cash positions, the Board has also determined to solicit public comment on the option of permitting paying banks to pay for the float generated by their items rather than paying for the items themselves. The methods of payment for this float would be similar to those now offered to institutions in connection with paying for interterritory check float. 48 Fed. Reg. 10753 (March 14, 1983).

Under the proposed amendment, cash items would be made available to the paying banks so that they may begin processing if they desire to do so. However, the items would not be considered to be received for purposes of accountability under section 210.9(a) of Regulation J, or for purposes of beginning the running of the time for return under section 210.12(a) of Regulation J, until the institution's next banking day<sup>3/</sup> on which it actually receives the cash letter. Accordingly, the proposed amendment would not require the paying bank to open on a weekday closing day or nonstandard holiday.

Effect on small institutions. The proposed amendment would not impose any additional reporting, recording, or other compliance requirements on any institutions and would not duplicate, overlap, or conflict with any other federal rule. The most significant economic impact of the proposal on any depository institution will be the reduction of earnings on funds that could have been invested in the federal funds market had the Reserve Bank not charged the institution's account until the next banking day or had it not paid for the float associated with the checks made available to it when it was closed. The amount of such reductions will vary widely among the institutions affected, regardless of an institution's size. Nevertheless, the Board recognizes that in some instances the economic impact on an institution may be significant. As discussed above, the alternatives to this proposed amendment that were adopted by the Board in April 1983 raise concerns of equity and feasibility. The Board does not believe that other alternatives to the proposed amendment

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<sup>3/</sup> "Banking day" is defined in Regulation J as "a day during which a bank is open to the public for carrying on substantially all its banking functions." 12 C.F.R. § 210.2(d).



designed to lessen its impact, such as exempting small depository institutions from its coverage, would be consistent with the requirement of the MCA that the Federal Reserve price for remaining Federal Reserve float or would serve the regulatory aims of the MCA (such as equal treatment for all depository institutions and reduction of Federal Reserve float).

List of Subjects in 12 C.F.R. Part 210

Banks, banking; Federal Reserve System.

Pursuant to its authority under section 13 of the Federal Reserve Act (12 U.S.C. § 342), section 16 of the Federal Reserve Act (12 U.S.C. § 248(o), 12 U.S.C. § 360), and section 11(i) of the Federal Reserve Act (12 U.S.C. § 248(i)), the Board proposes to amend Regulation J (12 C.F.R. Part 210) by revising in § 210.9(a) the undesignated paragraph following subparagraph (3) to read as follows:

SECTION 210.9--PAYMENT

(a) \*\*\*

- (1) \*\*\*
- (2) \*\*\*
- (3) \*\*\*

The proceeds of any payment shall be available to the Reserve Bank by the close of the Reserve Bank's banking day on the banking day of receipt of the item by the paying bank. If the banking day of receipt is not a banking day for the Reserve Bank, payment shall be made on the next day that is a banking day for the Reserve Bank. A paying bank that is closed on a day that is a banking day for the Reserve Bank must pay on that day for a cash item made available to it on that day by the Reserve Bank or compensate for the value of float associated with such items in accordance with procedures established by the Board, but the paying bank is not considered to receive the item until its next banking day.

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By Order of the Board of Governors, September 13, 1983.

(signed) James McAfee

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James McAfee  
Associate Secretary of the Board