A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 26, 1939, at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Fansom, Vice Chairman
Mr. McKee
Mr. Davis
Mr. Draper
Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of Examinations
Mr. Dreibelbis, Assistant General Counsel
Mr. Chase, Assistant Counsel
Mr. Crays, Federal Reserve Examiner

Before the meeting there had been circulated among the members of the Board a copy of a memorandum dated December 22, 1939, from Mr. West, Assistant General Counsel, relating to the proposed Regulation G, Collection of Non-cash Items, a copy of which was sent to the Federal Reserve banks with the Board's letter of September 15, 1939. The memorandum stated that the Standing Committee on Collections, meeting with the Special Committee of Counsel for the Federal Reserve banks, had considered and recommended uniform provisions for the non-cash collection circulars and this recommendation was approved, with certain minor modifications, by the Presidents' Conference which met here on December 12, 1939; that all of the revised non-cash collection circulars of the Federal Reserve banks had not yet been received by the Board; that it appeared unlikely that any very troublesome questions
would arise in connection with the circulars which would necessitate deferring the effective date of the regulation for any considerable period; and that it appeared desirable that the Board adopt Regulation G at this time so that it could be filed with the Federal Register before the end of the year. The memorandum recommended that, in the circumstances, the Board adopt Regulation G, to become effective February 1, 1940, which would give time for the completion of the review of the circulars of the Federal Reserve banks, for the printing of the circulars and the regulation, and for their transmission to member banks. The further recommendation was contained in the memorandum that the Board issue a press statement with regard to the new regulation and advise the Federal Reserve banks accordingly.

Upon motion, the following resolution was adopted by unanimous vote:

RESOLVED, That Regulation G, Collection of Non-cash Items, be adopted to become effective February 1, 1940, as follows:

"REGULATION G

Effective February 1, 1940

"COLLECTION OF NONCASH ITEMS

"AUTHORITY FOR REGULATION

"This regulation is based upon and issued pursuant to the provisions of subsection (i) of section 11, the first paragraph of section 13, and the 14th and 15th paragraphs of section 16, and other relevant provisions of the Federal Reserve Act.

"SECTION 1. DEFINITION OF NONCASH ITEMS

"As used in this regulation, the term 'noncash items'
"means any items of the following classes when payable within the continental United States:

(1) Maturing notes, acceptances, bankers' acceptances, certificates of deposit, bills of exchange, and drafts with or without securities, bills of lading or other documents attached;

(2) Drafts and orders on savings deposits with pass books attached;

(3) Checks, drafts and other cash items which have previously been dishonored or on which special advice of payment or dishonor is required;

(4) Maturing bonds and coupons (other than obligations of the United States and its agencies which are redeemed by Federal Reserve banks as fiscal agents);

(5) State and municipal warrants, including both orders to pay addressed to officers of States and political subdivisions thereof and any special or general obligations of States and political subdivisions thereof;

(6) All other evidences of indebtedness and orders to pay, except checks and bank drafts handled under the provisions of Regulation J and checks and bank drafts drawn on or payable by a nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve bank of the district in which such nonmember bank is located.

"SECTION 2. RECEIPT OF ITEMS FOR COLLECTION

"Each Federal Reserve bank may receive for collection noncash items from member and nonmember clearing banks in its district, from other Federal Reserve banks, and from

1Any check, draft, or other item which is normally handled as a cash item will not be handled as a noncash item unless special conditions require that this be done, and the Federal Reserve bank will decide whether such special conditions exist.

2Checks and bank drafts drawn on or payable by a nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve bank of the district in which such nonmember bank is located, and which may not be received under the terms of Regulation J, likewise may not be received as noncash items under the terms of this regulation."
"all member and nonmember clearing banks in other Federal Reserve districts which are authorized to route direct for the credit of their respective Federal Reserve banks, subject to the terms and conditions of this regulation.

"SECTION 3. TERMS OF COLLECTION

"(1) Agreement of sending bank. - Each member and nonmember clearing bank which sends noncash items to any Federal Reserve bank for collection shall by such action be deemed: (a) to authorize the Federal Reserve banks to handle such items subject to the terms and conditions of this regulation; (b) to warrant its own authority to give the Federal Reserve banks such authority; (c) to agree to indemnify any Federal Reserve bank for any loss or expense sustained (including but not limited to attorneys' fees and expenses of litigation) resulting from the failure of such sending bank to have such authority, or resulting from such Federal Reserve bank's guaranty of prior endorsements, or resulting from any action taken by the Federal Reserve bank within the scope of its authority for the purpose of collecting such noncash items; and (d) to guarantee all prior endorsements on such items whether or not a specific guaranty is incorporated in an endorsement of the sending bank.

"(2) Federal Reserve bank as agent. - A Federal Reserve bank will act only as agent of the bank from which it receives such noncash items and will assume no liability except for its own negligence and its guaranty of prior endorsements.

"(3) Presentation of items by Federal Reserve bank. - A Federal Reserve bank may present such noncash items with any accompanying documents for payment direct to the person, firm or corporation on which they are drawn or by or through which they are payable or collectible, or may present them for payment or forward them for collection direct to the bank on which they are drawn, at which they are payable, or through which they are payable or collectible; or, in its discretion, may forward them to another agent with similar authority to present them for payment or forward them for collection. The bank upon which any such noncash item may be drawn, or at which the same may be payable or through which the same may be payable or collectible shall be deemed to be a proper agent for collection within the meaning of this regulation.

"(4) Items payable in other districts. - Noncash items received by a Federal Reserve bank payable in other districts will be forwarded for collection to the Federal
"Reserve bank of the district in which such items are payable; except that, when in the judgment of the Federal Reserve bank the size or character of the items or other special circumstances justify such action, any such items, in the discretion of the Federal Reserve banks, may be forwarded for collection direct to the bank on which they are drawn, at which they are payable, or through which they are payable or collectible, or may be forwarded for collection to another agent with authority to present them for payment direct to the person, firm, or corporation on which they are drawn or by or through which they are payable or collectible or to present them for payment direct to the bank on which they are drawn, at which they are payable or through which they are payable or collectible.

"(5) Forms of payment accepted by Federal Reserve bank. - A Federal Reserve bank may, in its discretion and at its option, accept from any bank in payment of or from any collecting agent in remittance for such noncash items, cash, checks, bank drafts, transfers of funds or bank credits, or other forms of payment or remittance, acceptable to the collecting Federal Reserve bank. The Federal Reserve bank shall not be liable for the failure of any bank or any agent to collect, or to pay, or to remit for, such noncash items, nor for any loss resulting from the acceptance from any bank or any agent, in lieu of cash, of any other form of payment or remittance authorized herein, nor for the nonpayment of, or failure to realize upon, any bank draft or other medium of payment or remittance which may be accepted from any bank or any collecting agent.

"(6) Collection of remittances for noncash items. - Bank drafts and other forms of payment or remittance received by a Federal Reserve bank in payment of or in remittance for noncash items handled under the terms of this regulation will be collected, at the option of the Federal Reserve bank, either under the terms and conditions of this regulation or under the terms and conditions of Regulation J of the Board of Governors of the Federal Reserve System.

"(7) Suspension or closing of paying or remitting bank. - No draft, authorization to charge, or other order, upon any reserve balance, clearing account, deposit account, or other funds of a paying, remitting, or collecting bank in the possession of a Federal Reserve bank, issued for the purpose of settling items handled under the terms of this regulation will be paid, acted upon, or honored after receipt by such Federal Reserve bank of notice of suspension
"or closing of such paying, remitting, or collecting bank.

(8) Items sent direct to Federal Reserve bank in another district. - With respect to any noncash item sent direct by a member or nonmember clearing bank in one district to a Federal Reserve bank in another district, the relationships and the rights and liabilities existing between the member or nonmember clearing bank, the Federal Reserve bank of its district and the Federal Reserve bank to which the noncash item is sent will be the same, and the relevant provisions of this regulation will apply, as though the member or nonmember clearing bank had sent such noncash item to the Federal Reserve bank of its district with its endorsement and guaranty of prior endorsements and such Federal Reserve bank had sent the noncash item to the other Federal Reserve bank with its endorsement and guaranty of prior endorsements.

"SECTION 4. OTHER RULES

"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 noncash collection operations. Such rules may be set forth by each Federal Reserve bank in circulars to its member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any noncash 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."

In connection with the above matter, unanimous approval was also given to the following telegram to all of the Federal Reserve banks:

"Board has adopted Regulation G, to become effective February 1, 1940, in the form enclosed with Board's letter of September 15, 1939, S-182, with changes in punctuation of which you have already been advised by wire. Copies of the regulation will be printed and furnished you at an early date. The Board will issue following press statement for release in morning papers of December 29, 1939:

'The Board of Governors of the Federal Reserve System announced today the adoption of a regulation, effective February 1, 1940, governing the collection by Federal Reserve banks of notes"
"...and bills and other "noncash items" for member banks and nonmember clearing banks. This regulation has been issued by the Board in order that the principal terms and conditions relating to the collection of noncash items may be published in the Federal Register and requires no change in the existing practices of the Federal Reserve banks. Other provisions regarding the collection of noncash items will be contained, as heretofore, in the circulars of the individual Federal Reserve banks."

Mr. Ransom referred to a memorandum which he had placed in circulation among the members of the Board under date of December 18, 1939, with respect to the status of the special studies being prepared at his request by members of the staff for use in connection with the anticipated hearings to be held by the Banking and Currency Committee of the Senate on monetary and banking problems under authority of Senate Resolution 125 which was adopted on August 4, 1939, known as the Wagner Resolution.

The questions raised in the memorandum were discussed and it was agreed that drafts of the studies with accompanying charts but not including the appendices should be furnished to all members of the Board as promptly as possible with the understanding that they will read the studies following which a decision will be reached as to the manner in which the suggestions of the Federal Reserve banks, the Federal Advisory Council and possibly others will be obtained as well as on the question of the distribution to be made of the studies in their final form.

At this point Messrs. Thurston, Wyatt, Paulger, Dreibelbis, Chase and Crays left the meeting and the action stated with respect
to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 22, 1939, were approved unanimously.

Telegram to Mr. Young, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"In accordance with recommendation contained in your telegram of December 26, Board extends until January 29, 1940, time within which 'The Shiawasee County Bank', Durand, Michigan, may accomplish membership in the System."

Approved unanimously.

Letter to Mr. Paulger, Chief of the Division of Examinations of the Board of Governors, reading as follows:

"Paragraph number 7 of section 5240 of the United States Revised Statutes (section 21 of the Federal Reserve Act), as amended, provides that the Board of Governors of the Federal Reserve System, at least once each year, shall order an examination of each Federal Reserve bank.

"In accordance with this provision of the law, the Board orders that at least one examination of each of the twelve Federal Reserve banks be made during the year 1940, and the Board authorizes and directs you to institute and conduct such examinations at such time or times as may seem advisable in your judgment."

Approved unanimously.

Mr. Morrill suggested that the Board authorize the payment of the cost of the luncheon served to Mr. Albert M. Creighton, Member of the Industrial Advisory Committee of the Federal Reserve Bank of Boston, in the Board's dining room today.

Approved unanimously.
Thereupon the meeting adjourned.

Chairman.

Approved:

[Signature]

Chairman.