

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 2022, January 17, 1940,  
Transmitting Regulation G  
and our Circular No. 2023, effective February 1, 1940 ]

*To the Member and Nonmember Clearing Banks  
of the Second Federal Reserve District:*

We transmit herewith a printed copy of Regulation G of the Board of Governors of the Federal Reserve System, effective February 1, 1940, relating to collection of noncash items. In connection with the issuance of this regulation the Board released for publication on December 29, 1939, a statement to the press reading as follows:

"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."

We are issuing, and also transmitting herewith, Circular No. 2023, effective February 1, 1940, entitled "Collection of Noncash Items", which will supersede Circular No. 856, dated July 2, 1928, as amended.

The enclosed circular, and the circulars of the other Federal Reserve banks relating to "Collection of Noncash Items", which will also become effective February 1, 1940, contain the following provision:

"PROTEST PRACTICE IN ABSENCE OF INSTRUCTIONS

In the absence of specific instructions in the sending bank's collection letter, this bank will receive, handle, and forward noncash items subject to the following protest instructions:

1. DO NOT PROTEST items of \$50.00 or less.
2. PROTEST dishonored items of \$50.01 or over, except bonds, debentures, coupons, and other similar securities."

The above quoted provision is Section 4 of the enclosed circular.

This change from the present practice of not protesting noncash items of \$10 or less, to the practice of not protesting items of \$50 or less, in the absence of specific instructions in the sending bank's collection letter, conforms to the change made in the circulars of all Federal Reserve banks effective January 2, 1940, relating to "Collection of Cash Items", in response to the request of the American Bankers Association contained in the resolution adopted by the Executive Council of the association at the annual convention held in Seattle in September 1939.

The enclosed Circular No. 2023, containing the above quoted provision, will not become effective until February 1, 1940. Until that date the provision relating to protest contained in our present Circular No. 856 remains in effect, providing for the protest of unpaid items over \$10.00.

Additional copies of the enclosed regulation and circular will be furnished by this bank upon request.

GEORGE L. HARRISON,  
*President.*

**BOARD OF GOVERNORS  
of the  
FEDERAL RESERVE SYSTEM**

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**COLLECTION OF NONCASH ITEMS**



**REGULATION G**

This Regulation as printed herewith is effective February 1, 1940



**INQUIRIES REGARDING THIS REGULATION**

Any inquiry relating to this regulation should be addressed to the Federal Reserve bank of the district in which the inquiry arises.

## 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;<sup>1</sup>

(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<sup>1</sup> 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.<sup>2</sup>

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<sup>1</sup> Any 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.

<sup>2</sup> 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, 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.

## 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 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 bank, 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 non-

member 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.