

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 2023, effective February 1, 1940,
Superseding Circular No. 856 as amended]

COLLECTION OF NONCASH ITEMS

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

Regulation G of the Board of Governors of the Federal Reserve System (hereinafter referred to as Regulation G) prescribes the terms and conditions upon which we will receive and handle noncash items for collection. Section 4 of Regulation G provides that each Federal Reserve bank may promulgate rules not inconsistent with the terms of the law and that regulation, governing the details of its noncash collection operations, and that such rules 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. This circular is issued pursuant to this provision of Regulation G.

SECTION 1. DEFINITION OF NONCASH ITEMS

As used in Regulation G and in this circular, 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 (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.);
- (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. (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 Regulation G and this circular.)

This bank will not accept noncash items payable in the same city in which the sending bank is located.

SECTION 2. TERMS OF COLLECTION

Every bank sending noncash items to us or to another Federal Reserve bank direct for our account by such act shall be understood to have agreed to the terms and conditions of this circular and of Regulation G in effect at the time such noncash items are received by the Federal Reserve bank.

Noncash items payable in other Federal Reserve districts and forwarded for collection to the Federal Reserve banks of such other districts either by us or by our member and nonmember clearing banks for our account will be handled by such other Federal Reserve banks subject to the terms and conditions of Regulation G and of the respective circulars of such other Federal Reserve banks, and to the rules of law applicable to such banks; but we will give credit to the sending banks for such items in accordance with the provisions of this circular.

Any noncash item, or check received in remittance therefor, may be presented through a clearing house or a clearing house association subject to the rules and practices thereof.

Any noncash item, or check received in remittance therefor, may be presented by delivery to a bank or representative thereof, pursuant to an agreement or arrangement permitting such bank at any time during the same day to pay or remit for such noncash item or check or to return it as dishonored and entitling such bank, if it has previously made conditional payment or remittance for the noncash item or check so returned, to receive credit or refund therefor. The specific authorization of the above methods of presentment shall not be construed to exclude any other method of forwarding or presentment which may be authorized or would constitute ordinary care under existing rules of law or under any other provision of Regulation G or of this circular.

Regulation G on the date of this circular prescribes the following terms and conditions under which all Federal Reserve banks will handle noncash items for member and nonmember clearing banks:

"(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 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 3. PROCEDURE TO BE FOLLOWED BY SENDING BANKS

Items forwarded for collection and credit when paid should be listed on a letter different in form from that in which cash items are listed. It is desirable that collection letters include a description of each item listed, showing the name of the payer, place of payment, maturity, amount, whether or not subject to protest, and any special instructions such as request for telegraphic advice of payment or nonpayment. If documents are attached, they must be clearly and adequately identified in the accompanying letter. The collection letter should also show the collection number assigned to each item by the sending bank.

Any special instructions as to handling should be incorporated in the collection letter. Special instructions noted on or attached to the items themselves and not supported by like instructions in the collection letter will be ignored.

Securities, whether or not accompanied by drafts, should not be included in a letter enclosing other items.

Sending banks are requested to sort bonds and coupons which they send to us for collection into the following classes with a separate letter for each class:

- (a) *Coupon Cash Letter*—Coupons payable in New York City for which credit, subject to payment in actually and finally collected funds, is desired. Such letter should be totaled.
- (b) *Coupon Collection Letter*—Bonds and coupons payable in New York City for which credit is desired only upon receipt by us of payment in actually and finally collected funds.
- (c) *Coupon Collection Letter*—Bonds and coupons payable outside of New York City.

A letter containing only coupons payable in New York City will be treated as a coupon cash letter unless it indicates that credit is desired only upon receipt by us of payment in actually and finally collected funds.

Envelopes containing coupons should show the name of the sending bank and that of its depositor and should give a complete description of the coupons enclosed.

Only coupons of the same issue should be enclosed in one coupon envelope and each coupon envelope should be listed and described separately on the sending bank's letter.

Envelopes enclosing coupons owned by domestic or resident corporations should bear a statement of the sending bank as follows: "The coupons enclosed, without ownership certificates attached, are owned by a domestic or resident corporation."

Coupons from bonds owned by individuals, fiduciaries, partnerships or foreign corporations, must have proper ownership certificates attached.

Ownership certificate forms should be obtained by sending banks from the nearest collector of internal revenue. The Federal Reserve Bank of New York, however, can furnish a small supply for immediate use.

The foregoing provisions do not relate to obligations of the United States, or of its agencies, paid or redeemed by us as fiscal agent. Such obligations are not received by us for collection. Coupons from such obligations should be enclosed in separate envelopes according to issue and listed on schedules provided for the purpose, which envelopes and schedules we will furnish upon request.

SECTION 4. 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.

SECTION 5. COLLECTION CHARGES

Except as provided below, the Federal Reserve banks make no charge for their services in collecting noncash items.

Any noncash item payable in a city where there is a Federal Reserve bank or branch, a collecting agent for which is not specifically designated, will be collected without charge except as provided in items (2) to (5) below. If a collecting agent for any such item is specifically designated, any charge made by such agent will be deducted and the net proceeds of the item credited.

With respect to the collection of noncash items payable outside of Federal Reserve bank and branch cities, it is recognized that any bank selected by a Federal Reserve bank as agent to collect any such item renders a service, in presenting, collecting and remitting, for which a reasonable charge may be made if it cares to do so, and when such a charge is made, it will be deducted and credit given for the net proceeds.

No charge may be made by a collecting bank in connection with the collection or payment of any check that may be handled as a noncash item.

Items sent to the Federal Reserve banks for collection are subject to the following charges:

- (1) Charges made by collecting banks or agents, referred to above;
- (2) Charges made in the discretion of the Federal Reserve banks for handling or collecting securities;
- (3) A service charge of 15¢ per item on all collection items returned unpaid and unprotested. This charge will not apply to items that are protested;
- (4) Expenses incurred for postage and insurance or express in forwarding items by registered mail or express;
- (5) All telephone and telegraph charges. (See Section 6 below, "TELEGRAPHIC ADVICE".)

SECTION 6. TELEGRAPHIC ADVICE

When instructed to do so by sending banks, this bank will request telegraphic advice of payment or nonpayment of noncash items and will transmit by telegraph any information received. Charges for all telegrams pertaining to payment, nonpayment or tracing of items, or in connection with receiving or transmitting any other information or instructions, will be made at commercial rates against the banks from which such items were received; telegrams to such banks will be sent "collect".

SECTION 7. INTERPRETATION OF TERMS REQUESTING TELEGRAPHIC ADVICE

The terms listed below, when used in advices or communications in connection with noncash items, will be understood to have the meanings indicated, as follows:

(a) "WIRE PAYMENT" when it is desired that the collecting agent furnish telegraphic advice that payment has been made by the drawee or payer. It will be understood that banks requesting "wire payment" wish to be advised when payment has been made to the collecting agent, rather than when the proceeds are credited to the reserve or nonmember clearing account with the Federal Reserve bank. When a Federal Reserve bank gives such advice of payment, it does not necessarily imply that actually and finally collected funds are in its possession.

(b) "WIRE NONPAYMENT" when a telegraphic advice of dishonor only is desired.

(c) "WIRE FATE" or "WIRE PAYMENT OR NONPAYMENT" when a prompt advice of payment or nonpayment by drawee or payer is desired.

(d) "WIRE CREDIT" when a telegraphic advice of final payment and of credit to the reserve or nonmember clearing account of the sending bank is desired.

SECTION 8. AVAILABILITY OF PROCEEDS OF NONCASH ITEMS

Except as hereinafter provided in this section with respect to bankers' acceptances and due and past due coupons, credit for the proceeds of noncash items, with the usual advice, will be given in the reserve account of member banks, or the clearing account of nonmember banks, upon receipt by this bank of payment in actually and finally collected funds or on receipt of advice from other Federal Reserve banks of such payment.

Credit for bankers' acceptances will be given, subject to payment in actually and finally collected funds, in accordance with the following schedule, if received by us sufficiently in advance to permit forwarding in time to reach the place of payment at least one day before maturity:

<i>Place Payable</i>	<i>Credit Available</i>
Federal Reserve Bank or branch cities.....	On maturity date
Elsewhere	1 day after maturity

Credit for due and past due coupons payable in New York City and listed to us in a totaled coupon cash letter will be given, subject to payment in actually and finally collected funds, one day after receipt if received by us by 9:00 a.m., or two days after receipt if received by us after 9:00 a.m.

SECTION 9. DIRECT ROUTING TO OTHER FEDERAL RESERVE DISTRICTS

Member and nonmember clearing banks may be permitted to route noncash items payable in other Federal Reserve districts direct to the Federal Reserve banks and branches of the districts in which the items are payable for our account, and are encouraged to apply for permission to exercise this privilege since it is of distinct advantage to them.

When in our judgment the number or nature of noncash items payable in other Federal Reserve districts usually received from a bank justifies such action, we reserve the right to decline to accept such items for collection unless they are routed direct to the Federal Reserve banks or branches of the districts in which they are payable.

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The right is reserved to withdraw, add to, or amend at any time, any of the provisions of this circular.

GEORGE L. HARRISON,
President.