TO THE CASHIER:

CHECKS RESTRICTED AS TO PAYMENT.

Sir:

Since the inauguration of the intra-district collection system this bank has received from its depositors a number of items which carry restrictive clauses such as: "Payable in New York exchange," or "Payable in exchange at current rates," or similar phrases. While very few items bearing such restrictions originate in this district, enough are received by our member banks from outside districts to make it advisable for us to call the matter to their attention. We, therefore, give below the text of a communication received by us from the Federal Reserve Board, as follows:

"The board has been informed that in some of the districts a number of member banks have induced depositors to draw checks upon them with the clause

'Payable in exchange at current rates'

printed or stamped upon the face of the checks.

"Our counsel holds that checks so payable are not valid negotiable instruments, inasmuch as they are not made payable in a sum certain in money, as required by law, but are made payable in domestic exchange. He is, therefore, of the opinion that Federal reserve banks have no authority, under the law, to charge such quasi-checks to the accounts of member banks, but must accept payment in exchange according to the terms of the check. The common law definition of a check is a written order for money drawn on a bank or banker, and of a draft, a written order drawn by one person upon another, directing the payment of money on account of the drawer.

"Section 16 of the Federal Reserve Act provides that ‘Every Federal reserve bank shall receive on deposit at par from member banks * * * checks and drafts * * *’ but does not authorize Federal reserve banks to receive for credit or for collection orders for exchange or other non-negotiable instruments.

"The board therefore advises all Federal reserve banks to notify their member banks that such items cannot be received for collection or credit, and that all instruments not payable expressly and unconditionally in money will be returned at once to the senders."

In accordance with this ruling of the Federal Reserve Board, we therefore notify you that instruments of the character above described or those containing any other qualification or restriction which impairs or destroys their negotiability cannot be received by this bank either for collection or credit.

In view of the danger both to banks and the public caused by the circulation of such instruments, we hope that our member banks will cooperate with us by not forwarding such items through our collection system.

Respectfully,

R. H. TREMAN,

Deputy Governor.