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The following suggestions relating to check clearances are submitted to the Board for its consideration:

While high sounding phrases can be framed about the avoidance of favoritism and the according of uniform treatment to all customers of a bank, there is in reality no such uniformity nor would there be any justice in seeking to apply what might appear to be superficially the same rule to all. Banks do a vast amount of unprofitable business, and nearly all of them carry many accounts as a matter of courtesy and convenience to the depositors which result in actual loss.

Few, if any, practical bankers would concede that there is any injustice in allowing interest on some accounts and refusing it on others, or in furnishing free exchange facilities to some customers and declining to do so in other cases. These matters are usually regulated by mutual agreement and are based upon the general value of an account to the bank, the balance and character of the items received on deposit being taken into consideration. Some dealers prefer to receive interest on their current balances and are willing to pay exchange; others do not care to receive interest but prefer to have their exchanges handled without charge. While from the view point of the bank it might feel justified in allowing interest on accounts showing constant and uniform balances, it would not consider paying anything on spasmodic accounts; then again a bank might very well afford to give free exchange facilities to a customer depositing checks in large amounts on New York and other financial centers while it could not afford to do so in the case of a customer who deposits only checks on small towns.

It is not believed that a Federal reserve bank could legally charge to a bankIs reserve account, over its protest, checks drawn upon the member bank which it had never seen or heard of, nor has a bank, in fact, the right to authorize the payment of a check drawn upon it at a place other than at its own counter, as it might thereby deprive the drawer of his right to stop payment on the check.

It seems, therefore, that the system of clearances authorized by the Act must be developed in an orderly and gradual manner and through the cooperation of the member banks. The problems involved in the clearance of intra-district checks are not very different from those which must be solved in inter-district clearings.

No check coming from either within or outside of a district should be charged to the account of a member bank except by its consent, and no Federal reserve bank should credit a member bank at par on receipt with any check imposing upon it the burden of the time in transit. It is clear that a Federal reserve bank can credit at par on receipt checks drawn on member banks in its Federal reserve city and that common business rivalry will, no doubt, induce member banks in other cities of a reserve district to arrange with the Federal reserve bank, by carrying a deposit in excess of the reserve deposit required, to charge their accounts with checks drawn upon themselves, thereby eliminating the factor of time in transit so far as the Federal reserve bank is concerned. It is not believed, however, that the member banks would care to provide for an immediate debit at the reserve bank of any and all checks that their customers might draw and which might come into the hands of the reserve bank. The Federal Reserve Act expressly recognizes the principle of compensation for a member bank in paying customers' checks that have been sent to a distant city by providing that the Federal Reserve Board may fix a charge that may be imposed by a member bank upon its customers for such service. All banking experience, however, goes to show that such a direct charge, at least at the outset,

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would be so unpopular and would be the subject of as much criticism as to make it impracticable. The member banks, therefore, must find their compensation in the value of the accounts against which the checks are drawn. Possibly all member banks have some customers to whom they are willing to extend unlimited exchange facilities, but it is equally certain that they have other customers to whom they would not think of granting such facilities and who could not reasonably ask such a favor.

The suggestion is made, therefore, that member banks give to customers accorded unlimited exchange facilities a distinctive form of check indicated by a red or blue mark on the upper righthand corner and bearing also a printed or stamped endorsement on the face of the check, as follows:

> "The Federal Reserve Bank of _____ is authorized to charge this check, when remitted by a member bank, or by a Federal reserve bank, or by an officer or agent of the United States, against the account of the (name of bank on which drawn). Such charge will not constitute final payment of this check, which will be forwarded to the (name of bank on which drawn) for actual payment."

A Federal reserve bank should receive on deposit at par for immediate credit from member banks only such checks as are indicated in the manner shown above, and should they do so, would consequently have only such checks to remit to the Federal reserve banks in other districts. The Federal reserve banks should handle ~~unchte~~ unauthorized checks for their member banks as collecting agents only, withholding credit until payment has actually been received.

The Board should suggest to the Federal reserve banks that a regular settling day be agreed upon between them, either once or twice a month, and each Federal reserve bank at the opening of business on each settling day should wire the Federal Reserve Board the figures in even thousands shown on its books to the debit or credit of each other Federal reserve bank. A balance sheet would then be made up in the Secretary's office and each Federal reserve bank would be advised by wire as to the debits and credits necessary to be made in order to offset balances as far as possible. Balances remaining without offset could either run until the next settling day or could be provided for between the banks themselves. It is not the idea that the Board should make any suggestions as to transfers except upon the settling days agreed upon so that every bank may be free to shift balances between settling days to suit itself.

In case the Secretary of the Treasury should be willing to deposit from one to two million dollars with each Federal reserve bank, such deposit being a bookkeeping entry only, the funds to be held here in Washington to the credit of each bank, transfer checks could be drawn by one bank in favor of another against such funds in the Treasury and proper readjustments of balances could be made when necessary.

It should not be forgotten that a check drawn on Tombstone, Arizona, is not and can never be ipso facto worth as much in Boston as a check for the same amount drawn on a bank in Lowell, nor can a check drawn on Augusta, Maine, be worth as much in Portland, Oregon, as it would be in Portland, Maine; therefore the matter of compensation for time in transit should be left to each bank and its individual customer, and an attempt to have the Federal reserve system absorb the float would be not only inequitable, but would stimulate a most unhealthy expansion of credits for the benefit of a portion of the public at the expense of another; it would give impetus to the practice of drawing checks against non-existing balances, and promote enormously the industry of check kiting.

Regulation No. 155

FEDERAL RESERVE BOARD

Washington, D. C.,

Regulation governing conditions under which National Banks may be granted permission to act as trustee, etc., under Section 11, Subsection K, of the Federal Reserve Act.

I.

Application of national banks to act as trustee, executor, administrator, or registrar of stocks and bonds under Section 11 (K) of the Federal Reserve Act.

1. Any national bank desiring to exercise any or all of the privileges authorized by this section shall make application to the Federal Reserve Board on a form approved by said Board. This application shall be forwarded by the applying bank to the chairman of the board of directors of the Federal reserve bank of the district in which the applying bank is located, and shall thereupon be transmitted to the Federal Reserve Board with the recommendation of the directors of said Federal Reserve bank.

2. There shall be attached to each application the following exhibits:

(a) A statement in detail of the character and extent of the privileges which the applying bank desires to undertake, and if it desires to act as trustee, the statement shall show specifically the nature of such trusteeships and the obligations to be assumed.

(b) A copy of the laws of the State in which such bank is located which relate to the exercise of these powers by corporations.

(c) A copy of the laws relating to the appointment of, and the bonds and reports required of executors and administrators, if the applying bank desires to act in such capacities.

(d) A copy of the laws, if any, relating to corporations acting as registrars of stocks and bonds, if the applying bank desires to act in such capacity.

II Trust Office.

Each national bank permitted to exercise the powers provided for under this section, shall appoint a trust officer who shall perform his duties under the supervision of a committee to be known as a Trust Committee, to be composed of not less than three members of the board of directors of the bank.

III Provision for keeping Trust Funds.

All funds, securities and investments of every kind held in trust by any national bank granted permission to act as trustee, executor or administrator, shall be segregated and kept separate and apart from any and all other funds, securities and investments of the bank, and separate and apart from one another.

The accounts relating to all such funds, securities and investments, and to all transactions engaged in by the bank as trustee, executor or administrator, shall be so kept that the specific funds, securities or investments belonging to each trust estate may be at all times definitely identified, and such funds shall in no case be carried on the books of the bank as deposits and shall not be so treated in calculating reserve, making loans or in any other manner, but shall at all times be held and treated as trust funds held by the bank in the capacity of trustee, executor or administrator as the case may be.

IV Investment of Trust Funds.

Trust funds shall be invested in any manner provided in the instrument creating the trust fund or as ordered or authorized by any court of competent jurisdiction or as specifically authorized by the laws of the State in which said national bank is situated. Provided that if there are no contrary instructions as to investments in the instrument creating the trust and no specific provisions of the laws of the State relating thereto, such trust funds, subject to the order of any court of competent jurisdiction may be invested:

(a) In mortgages upon unincumbered and improved real estate situated in the State in which the bank is located, such real estate being of a value, to be ascertained by not less than two disinterested appraisers, equal to double the amount proposed to be invested therein.

(b) In bonds or other interest bearing obligations of the United States or of the District of Columbia.

(c) In the bonds or other interest bearing obligations of any State of the United States, or

(d) In any legally authorized bonds issued by any city, town, county, or other legally constituted municipality or district in the United States which has been in existence for a period of ten years and which for a period of ten years previous to such investment has not defaulted for more than fifteen days in the payment

of any part of either principal or interest of any funded debt authorized to be contracted by it, and whose not funded indebtedness (as defined in the Regulations of the Board of Trustees of the Postal Savings System approved June 13, 1913) does not exceed ten per cent of the valuation of its taxable property to be ascertained by the last preceding valuation of the property for the assessment of taxes.

Bonds to be eligible under paragraph (c) and (d) above must be the general obligations of the entire State, city, town, county, municipality or district which issues them, it being intended to exclude as ineligible for purchase bonds payable out of the "local benefit" or "special assessment" taxes when the issuing State, city town, county, municipality or district at large is not directly or ultimately liable.

In case of merger, consolidation or succession of any city, town, county, municipality or district the ten year period of existence and non-default referred to in paragraph (d) above will be held to be complied with under the conditions set forth in Section 8-c, paragraphs one, two and three of the regulations of the Board of Trustees of the Postal Savings System for the Guidance of Qualified Banks and Others Concerned as amended November 19, 1914.

V. Trustee under Mortgage or Deed of Trust.

In any case where the bank is named as trustee in any mortgage or deed of trust it shall require a certified copy of the original mortgage or deed of trust to be filed with it and shall at all times keep an accurate account of any bonds outstanding which are secured by such mortgage or deed of trust, and which have been certified to for identification by the trustee. Such records shall be so kept as to enable the bank to furnish the Federal Reserve Board from time to time with any information called for relating to the powers vested in the trustee and the duties imposed by the mortgages or deeds of trust upon such trustee, and to any other matters relating to the exercise of such powers and the

VI. Statement to Registrar.

L. Before any bank granted permission to act as registrar of stocks and bonds shall countersign any certificate of stock or any bond, or shall register any certificate of stock or any bond, it shall require the corporation issuing this stock or bond to file with it a statement signed by the president or vice-president of the corporation, with the seal of the corporation affixed and attested by the secretary, setting forth fully and accurately the basis or financial plan upon which all stocks and bonds are to be and have been issued.

Such statement or financial plan shall be in form and shall contain sufficient information in detail to enable the bank acting as registrar to furnish the Federal Reserve Board, or any stockholder or bondholder of the corporation, or any other person entitled thereto, with any information as to the basis of issue of such stock or bonds, the authority for such issue, and the amount outstanding at any time.

VII. Reports.

Whenever the Comptroller of the Currency calls for reports of condition of the bank, such report shall be accompanied by a full statement of the condition of the trust department. Upon request, reports shall also be furnished to the Federal Reserve Board and to the Federal reserve bank of the district in which said bank is located.

VIII. Examination.

Examiners appointed by the Comptroller of the Currency or designated by the Federal Reserve Board, shall make thorough and complete audits of the cash, securities, accounts and investments of the trust department of every bank, at the same time that examination is made of the banking department.

IX. Security on Bond.

Any national bank acting as trustee, executor, administrator, or registrar of stocks and bonds, shall give such bond as may be required by the laws of the state in which said bank is located, or as may be required by the court appointing it.

X. Conformity with State Laws.

Nothing in these regulations shall be construed to give to a national bank doing business as trustee, executor, administrator, or regi trar of stocks and bonds under Section 11(k) of the Federal Reserve Act, any rights or privileges in contravention of the laws of the state in which the bank is located.

Xl. Changes in Rules.

These rules and regulations are subject to changes at any time by the Federal Reserve Board.