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F E D E R A L R E S E R V E B O A R D .

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Check Clearings.

Section Thirteen of the Federal Reserve Act provides in part:

"Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation".

The receiving on deposit of checks and drafts of other banks necessarily involves the collection of such items and since Federal reserve banks are authorized to accept (a) checks on their own member banks, (b) checks on other Federal reserve banks, and (c) when remitted by other Federal Reserve Banks checks on banks which are members of other Federal reserve banks, it will become necessary, when a general exchange business is undertaken, to deal with the problem of (1) intra-district clearing of checks, (2) adjustment of balances as between Federal reserve banks, and (3) inter-district clearing of checks.

The Board has determined that the purposes of the Act can be best attained with the minimum disturbance of existing conditions by providing, first for intra-district clearing; and when this phase of the problem has been properly disposed of the systematic adjustment of Federal reserve bank balances and inter-district clearings can be provided for as a natural and logical development.

Section Sixteen of the Federal Reserve Act imposes the obligation upon the Federal Reserve Board to prescribe charges to be made for the service of clearing checks when the Federal reserve banks undertake to exercise this power vested in them under Section Thirteen. In order that these charges may be based upon the results of actual experience and may not be merely estimated, the Board has determined, after due consideration, to recommend to the several Federal reserve banks the following plan of procedure as a means to this end:

Reciprocal Privileges.

It is suggested that each Federal reserve bank offer to each of its members the reciprocal privilege of having all checks and drafts on other solvent member banks in its district entering into such agreement credited immediately to its account at par on the date of deposit, provided, such bank will authorize in writing the Federal reserve bank to charge to its account checks and drafts drawn on it and deposited by other member banks in its district, or by the United States Government. That to avoid depletion of reserve accounts each member bank availing itself of this reciprocal privilege shall agree to maintain on deposit with the Federal reserve bank a sum sufficient to protect, on a certain average, any net debit balance created by charging up checks and drafts drawn against it by other depositors.

In order to determine the sum necessary to be maintained in addition to its legal reserve, it is suggested that for the first sixty days after such arrangement goes into effect each bank entering into such arrangement shall maintain an additional sum equivalent to per cent of its legal reserve and after the expiration of sixty days shall maintain an additional sum on deposit equal to the average daily debit balance shown on its reserve account during that period.

After a canvass has been made by circular letter sent to all member banks, each Federal reserve bank should publish a list of those member banks which have agreed to the arrangement suggested and should thereafter agree to receive on deposit at par from all of such banks checks or drafts drawn against any banks shown on such list.

Whenever additional member banks agree to this arrangement the list should be revised so as to include in the par list all banks entering into this agreement.

Checks or drafts deposited by member banks not on the par list should be received for collection and deferred credit only and should not be credited to the depositing bank nor charged to the member banks against which such checks or drafts are drawn until the collection has been actually made.

Pending the establishment in the foregoing manner of a system of intra-district clearing, Federal reserve banks should not be required to handle checks on banks which are member banks of other Federal reserve banks and checks on one Federal reserve bank should not be received by other Federal reserve banks except for collection and credit.

As stated, the subject of adjustment of balances as between Federal reserve banks and inter-district clearing will be considered by the Board at a later date.