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FEDERAL RESERVE BOARD

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AND FISCAL AGENT

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DIVISION OF AUDIT AND EXAMINATION

July 25, 1917.

Dear Sir:

On June 28th the Federal Reserve Board addressed a letter (X-236) to the chairmen and governors of all Federal Reserve banks, outlining further steps in the development of the clearing and collection system. Acknowledgments have been received from most of the banks, which show that no progress has been made in the direction indicated, and express in some cases a desire to defer action pending a discussion of the subject at a conference of governors of Federal Reserve banks.

The Board, however, wishes to expedite the matter and sees no necessity for any further discussion or delay, and accordingly rules:

(1) For the time being, any Federal Reserve bank may, at its discretion, extend to each member and clearing bank an exemption from service charges upon a maximum of 250 checks per month. The Board believes that this exemption will encourage direct dealings on the part of the smaller banks, with their Federal Reserve bank.

(2) In cases where checks are not sent to the Federal Reserve banks but are sent direct from one member bank to another for credit of the sending bank on the books of the Federal Reserve bank, these transactions should be mutually agreeable to the banks concerned; for the Board cannot prevent the receiving bank from making a reasonable charge (as between banks) for the transfer as provided in Section 13 as amended. An opportunity is afforded all member banks to clear their checks at par by sending them to the Federal Reserve bank. If, for the purpose of saving time, or for any other reason, a bank desires to send its checks direct, it should make its own arrangements.

(3) As the Federal Reserve Act as amended provides that no form of money in the vaults of member banks can be counted as reserve, it may be expected that their stock of gold and lawful money will be diminished, and that there will be a corresponding increase in their stock of national bank notes and Federal Reserve notes. Therefore, pending the further development of the clearing system, Federal Reserve banks should receive from banks which are obliged to make shipments of cash to keep their balances good, any form of United States currency

fit for circulation on the same terms which have been heretofore extended to shipments of gold certificates and legal tenders .

In connection with the collection of "maturing notes and bills", to which reference was made in the letter of July 19th, the Board wishes to point out that

(4) Section 13 as amended permits a Federal Reserve bank to receive from member banks for collection maturing notes and bills; and, for purposes of exchange or of collection, from other Federal Reserve banks maturing notes and bills, payable in its district; or, solely for purposes of exchange or collection, from any non-member bank, maturing notes and bills. Each Federal Reserve bank therefore, should give notice that it will undertake the collection of maturing notes and bills which are payable at any town or city where the Federal Reserve bank has satisfactory arrangements for collecting checks through banks, and a similar notice should be sent to every other Federal Reserve bank that such collection will be made for other Federal Reserve banks on satisfactory banking points in its own district. The banks should announce that these collections will be made subject to the usual limitations as to liability, the actual cost of collection to be deducted when the proceeds are accounted for, and for their protection may exact a service charge of say 25¢ for each unpaid item.

In the opinion of the Board, action as indicated above is essential for the development of the collection system, and the plans outlined should be made effective at the earliest possible moment, or in any event not later than August 15, 1917. Other features and the elaboration of details can be considered later.

Very truly yours,

Governor.