

## FEDERAL RESERVE BOARD

WASHINGTON

X-3047

February 15, 1921.

SUBJECT: Returned Treasury Items.

Dear Sir:

There is enclosed herewith copy of a letter from Assistant Secretary of the Treasury Gilbert to the Deputy Governor of the Federal Reserve Bank of New York, giving the method of procedure in connection with items drawn on the Treasurer of the United States, paid by the Federal Reserve Bank of New York, and forwarded to the Treasurer, and subsequently found to have been raised, or to bear forged endorsements, etc., and returned by the Treasurer to the Federal Reserve Bank of New York. The Treasury advises that the Treasurer of the United States is prepared to extend this plan to other Federal Reserve Banks.

Very truly yours,

R. G. Emerson,  
Assistant to Governor.

Enclosure

TO CHAIRMEN OF ALL FEDERAL RESERVE  
BANKS EXCEPT NEW YORK.

C O P Y

X-3047a

January 27, 1921.

Dear Mr. Case:

I received your letter of December 31, 1920, with further reference to the question of items drawn on the Treasurer of the United States and returned by him to the Federal Reserve Banks. I have also received a letter from Mr. Harrison, dated January 15, 1921, enclosing a copy of a letter of December 30, 1920, to the Manager of the local Branch at Buffalo, which defines the procedure under which it is proposed to handle items returned by the Treasurer. The matter in question has been carefully considered by the Treasury and particularly by the Treasurer of the United States, whose account is of course affected. I think that the question has now reduced itself in large measure to one of procedure.

The items involved seem to fall under three distinct classes, namely:

- (1) Checks which the Treasurer rejects promptly upon first examination on account of any irregularity. Checks falling within this class would normally include, for example, unsigned checks, checks in which the signature of the drawer is discovered upon first examination to be forged, checks payment of which has been stopped, etc.
- (2) Checks which bear forged indorsements, and checks which have been raised or bear other material alterations which do not appear on examination.
- (3) Checks in respect to which a question arises on the facts as to the Treasurer's right to reclaim, as, for example, checks bearing a forged signature of the drawer not discovered upon first examination.

When checks of class (1) are returned I assume that immediate credit will be given in the Treasurer's account. The second paragraph of Mr. Rounds' letter of December 31, 1920, to the Buffalo Branch does not make this quite clear, but I assume that there is no difference of opinion as to items of this character.

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Such checks will be returned with Form 6537, copies of which are enclosed.

When checks of class (2) are returned it will be satisfactory to the Treasury if credit in the Treasurer's account is delayed by the Federal Reserve Bank until advice is received from the member bank that the item has been credited. Such checks will be returned with Form 6536, copies of which are enclosed. It is understood, however, as stated in Mr. Harrison's letter of January 15, 1921, that the circular under which the Federal Reserve Bank of New York acts as collecting agent for banks in its district with respect to warrants and checks drawn on the Treasurer of the United States will continue to reserve in favor of the Federal Reserve Bank the right at any time to charge back items returned by the Treasurer; and the Treasury still reserves the right ultimately to insist upon credit in such cases unless it develops upon further investigation that the Treasurer has not the right to reclaim.

When checks of class (1) and (2) are returned to the Federal Reserve Bank the Treasurer's office will charge the Transit Account - Adjustments of the Federal Reserve Bank - and hold further adjustments in the account in suspense until the Transit Account Adjustments item is cleared in the transcript of the Federal Reserve Bank.

When checks of class (3) are returned they will be forwarded with other items for collection and taken up when credited, with no intermediate charge on the books of the Treasurer in the account of the Federal Reserve Bank.

The Treasury will on and after January 28, 1921, handle these items in the manner outlined above, which I think is substantially in accordance with the procedure set out in the letter of December 30, 1920, to the Buffalo Branch. The regulations of the Treasury now in effect governing the payment of Government warrants and checks, as set forth in paragraphs 29-31 of Treasury Department Circular No. 176, dated December 31, 1919, will continue in effect.

Very truly yours,

(Signed) S.P. GILBERT, Jr.

Assistant Secretary of the Treasury.

J.H. Case, Esq.,  
Deputy Governor,  
Federal Reserve Bank,  
New York, N.Y.