

FEDERAL RESERVE BOARD

WASHINGTON

X-3457

June 27, 1922.

SUBJECT: Responsibility of Federal Reserve Banks With Respect to Checks Deposited for Credit to Treasurer's General Account and sent to Other than Drawee Banks for Collection.

Dear Sir:

The Board has received from the Under Secretary of the Treasury a copy of a letter written by him, under date of June 9th, to one of the Federal Reserve Banks, which reads as follows:

"I have your letter of June 1, 1922, regarding the provisions of Department Circular No. 175, as amended and supplemented May 15, 1922, and have noted your views regarding the acceptance of dividends on claims filed against insolvent banks under paragraph 26 of the circular, and regarding the liability of Federal Reserve Banks in case they elect to send Government checks to other than the drawee banks for collection under paragraph 25 of the circular.

"The purpose of the provision in paragraph 26 of the circular regarding acceptance of dividends on claims against insolvent banks that 'dividends on claims so filed should be accepted only upon specific authority from the Secretary of the Treasury' is to enable the Treasury to reserve its rights against the taxpayer or other drawer of the check upon which the claim is based. There should be no legal difficulty on this account, for the filing of a claim does not preclude refusal or delay in acceptance of payment. Where a claim filed on account of a dishonored exchange draft covers other items than Government items, however, the bank may, of course, accept dividends on account of items other than Government items. In any case, the Federal Reserve Bank may receive dividends even on account of Government items without previous instructions from the Treasury, but disposition should be made of such dividends only in accordance with the Treasury's instructions. In such case the rights of the Treasury can be amply safeguarded if the Federal Reserve Bank will notify the Treasury of the receipt of such dividends and the Treasury will then give prompt advice of its desires in the matter.

"The provisions of paragraph 25 as to the liability of a Federal Reserve Bank which elects to send Government checks to other than the drawee bank for collection restate a working arrangement agreed to between the Treasury and the Federal Reserve Board, of which the several Federal Reserve Banks were notified by the Board. The statutes under which both certified and uncertified checks are accepted by the Government expressly provide that if the check tendered by the taxpayer is not paid by the bank on which it is drawn the taxpayer remains liable to the Government as if no check had been received. This, of course, means that, wherever the drawee bank fails to pay the check, the Treasury is fully protected by its right to proceed against the taxpayer. But, in cases where the drawee bank has actually paid the check to a collecting agent bank used by the Federal Reserve Bank, the Government has lost its recourse against the taxpayer and must look either to the collecting agent bank or to the Federal Reserve Bank. Apart from any question of legal liability on the part of the Federal Reserve Bank, the arrangement in question has proved to be a working one and has been adopted by the several Federal Reserve Banks. The Treasury considers the arrangement a reasonable one, and, therefore, has embodied its terms in Circular No. 176."

The foregoing is transmitted for your information.

Very truly yours,

G o v e r n o r .

TO THE GOVERNORS OF ALL F. R. BANKS
Copies to Chairmen.