

FEDERAL RESERVE BOARD

WASHINGTON

X-3762

June 29, 1923.

SUBJECT: Amendments to Regulation J, Series of 1920.

Dear Sir:

Effective August 15, 1923 the Federal Reserve Board has amended Regulation J, which governs the par clearance system of the Federal Reserve Banks, by inserting these new conditions:

- (6) No Federal Reserve Bank shall receive on deposit or for collection any check drawn on a non-member bank which refuses to remit at par in acceptable funds.
- (7) Whenever a Federal Reserve Bank receives on deposit or for collection a check drawn by, endorsed by or emanating from any non-member bank which refuses to remit at par in acceptable funds, it shall make a charge, for the service of collecting such check, not to exceed one tenth of one per cent.

The Board has made public its reasons for this action as follows:

"The provisions of the Federal Reserve Act which authorize the establishment of a Federal reserve collection system were designed wholly for the benefit of the banking and commercial interests of the country. The system is now in operation between banks which in number are about 92 per cent of all banking institutions and which have approximately 98 per cent of the total banking resources of the country. The Federal reserve collection system has become a necessary instrumentality in effecting the country's domestic exchanges, its operation, including final payments through the Gold Settlement Fund, has been of inestimable value and has resulted in enormous saving to those actively engaged in carrying on the commerce of the country and there are no other facilities for operating a collection system which could approximate it in economy of operation. It has eliminated a very large portion of the time formerly consumed in the collection of checks and has cut down the cost of making the country's exchanges to the minimum. Even though an involuntary collection system may not be imposed upon the Federal Reserve Banks by the Federal Reserve Act, as interpreted by the Supreme Court of the United

States in its recent decision, the system has fully justified its operation and is of such value to the banking and commercial interests of the country that its continuance as a voluntary system is of vital importance. Certain changes in the basis of the par clearance system are advisable in view of the recent decision of the Supreme Court.

"The Board believes that participation in the par clearance system should be based upon the principle of reciprocity and that hereafter Federal Reserve Banks should not receive for collection checks on any non-member bank which will not agree to remit in acceptable funds without deduction. The recent opinion of the Supreme Court makes it certain that the Federal Reserve Banks are not permitted by law to pay exchange. It must be clear that the more inclusive a collection system is the more efficient it will be and the greater will be the service it can render alike to the business and banking community. Therefore, since it is the object of the Federal Reserve Board to maintain an efficient system of par collection, which must at the same time be a voluntary system as far as non-member banks are concerned, the concessions involved and the resulting benefits should be made and received by all participating banks. It is clear that those non-member banks which are unwilling to remit without deduction for checks drawn on themselves have no right to share in the advantages of the par collection system.

"The Federal Reserve Board, therefore, in the exercise of its legal authority, has amended Regulation J, Series of 1920, in such a way as to prohibit any Federal Reserve Bank from receiving on deposit or for collection any check drawn on any non-member bank which refuses to remit at par in acceptable funds and to require Federal Reserve Banks to make a collection charge for their services in collecting checks which bear the endorsement of, or are drawn by or emanate from any non-member bank which refuses to remit at par in acceptable funds, such collection charge to be at a rate not to exceed one tenth of one per cent."

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.