

## FEDERAL RESERVE BOARD

WASHINGTON

X-3785  
July 20, 1923.

SUBJECT: Check Collection - Procedure under Regulation J,  
Series of 1923.

Dear Sir:

As you have been advised previously the Federal Reserve Board has amended Regulation J, effective August 15, 1923, by adding the following new conditions:

"No Federal Reserve Bank shall receive on deposit or for collection any check drawn on any nonmember bank which refuses to remit at par in acceptable funds.

"Whenever a Federal Reserve Bank receives on deposit or for collection a check drawn by, indorsed by, or emanating from, any nonmember bank which refuses to remit at par in acceptable funds, it shall make a charge for the service of collecting such check of one-tenth of 1 per cent, the minimum charge to be 10 cents for each item."

At the request of the Board, the Federal Reserve Banks' Standing Committee on Collections was called, by the Acting Chairman of the Governors' Conference, to meet in Chicago on July 9, 1923, for the purpose of considering the methods and procedure in Federal Reserve Banks necessary to put into practical effect and operation on August 15, 1923, the provisions of the recent amendments to the Board's Regulation J. The Committee met, duly considered the subject and submitted a report, which was in part approved by the Federal Reserve Board, and this circular is designed to give force and effect to such portions of the report as the Board desires formally to adopt.

There is attached hereto draft of a uniform circular, based upon the amendments to Regulation J, which each Federal Reserve Bank should immediately issue as a supplement to its present check collection circular and which should be incorporated in its complete check collection circular whenever it becomes necessary to reissue it. There is attached also a photostat copy of a uniform advice of service charge.

The successful administration of these two new conditions of Regulation J depends very largely upon the observance and application of certain principles and practices uniformly by all Federal Reserve Banks. These essentials are as follows:

- (1) The full and complete cooperation of each Federal Reserve Bank

in carefully and consistently applying the charge against member and nonmember clearing banks on all checks received from them which are drawn by, indorsed by, or which emanate from any nonmember bank in the United States, which will not remit at par in acceptable funds; and in furnishing other Federal Reserve Banks (through the medium of the Federal Reserve Board) with the names of all such nonmember banks in its respective district .

(2) Inasmuch as a charge on such checks will be made by a Federal Reserve Bank against member and nonmember clearing banks from which such checks are received, it is reasonable to expect that member and nonmember clearing banks will not route to the Federal Reserve Banks any of such checks which can be disposed of through other collection channels. It may therefore be anticipated that circuitous routing will be practiced and that banks coming into possession of such checks will route them, whenever possible, to other correspondents, in which event such of these checks as are finally sent to a Federal Reserve Bank are likely to bear the indorsements of several banks (par as well as non-par) in other districts. The charge on such checks should be made only and retained by the Federal Reserve Bank which first receives such checks into the Federal Reserve collection system, regardless of where such checks originated or the location of prior indorsers. Therefore, it will not be necessary for one Federal Reserve Bank to examine checks payable in its district when received from another Federal Reserve Bank, it being understood that the Federal Reserve Bank which first receives the items applies the charge to those checks which are drawn by, indorsed by, or which emanate from any nonmember bank, wherever located, which will not remit at par in acceptable funds.

(3) It will be essential for a Federal Reserve Bank to examine all checks received from member and nonmember clearing banks to determine whether any of them were drawn by, indorsed by, or emanated from nonmember non-par banks in other Federal Reserve districts as well as in its own district, and therefore each Federal Reserve Bank must be in possession of a complete list of all nonmember banks in the United States which will not remit at par in acceptable funds for checks drawn on them. Upon receipt of this letter each Federal Reserve Bank will submit to the Board a list of those nonmember banks in its district by states which refuse to remit at par in acceptable funds for checks drawn on them. Upon receipt of this information from the Federal Reserve Banks the Board will make up a composite list covering all districts and send copies to each Federal Reserve Bank for use only in the transit departments of the Federal Reserve Banks. It is not thought advisable to publish a list of the names of those nonmember banks which refuse to remit at par nor for the Federal Reserve Banks to furnish this information to their member banks. Member Banks and clearing nonmember banks will be able to determine whether or not items drawn on other banks are collectible at par by consulting the Board's so-called "par list" as it will be issued in the future. If it is not clearly indicated by the par list that a particular bank will remit at par, the member bank consulting the list will thereby be on notice that the bank with whose item it is concerned refuses to remit at par in acceptable exchange and that the item is subject to a collection charge if routed through a Federal Reserve Bank.

In addition to sending to the Board a list of all banks in its district which refuse to remit at par, the Federal Reserve Board requests each Federal Reserve Bank to prepare and send to it a list of all banks in its district by states which are willing to remit at par. It is desired that both lists mentioned herein be prepared and transmitted to the Board promptly on receipt of this letter, and not later than July 31 the Federal Reserve Banks may wire to the Board any corrections they may have to make in either of the lists. The Board will continue to issue monthly supplements to the par list, based on information which the banks will wire to it once a month as in the past, stating additions and withdrawals.

(4) Each member and nonmember clearing bank may be required in the discretion of its Federal Reserve Bank to list in a separate or special cash letter all such items sent by it to its Federal Reserve Bank, as are drawn by, indorsed by, or emanate from any nonmember bank which will not remit at par in acceptable funds; and may be required to indicate on the letter (by rubber stamp or otherwise) that such checks are subject to a charge. This arrangement would make it possible for the Federal Reserve Banks to apply the charge to specific cash letters without delay and with the possibility of differences reduced to a minimum. The Federal Reserve Banks, nevertheless, are required to examine all checks received in other cash letters to see that no checks drawn by, indorsed by, or emanating from such nonmember non-par banks are included therein.

(5) Each Federal Reserve Bank will be required to advise its member and nonmember clearing banks daily the total amount of the charge on each cash letter containing such items together with the date and the total of the letter. This rule shall also apply to letters received by Federal Reserve Banks direct from member and nonmember clearing banks in other Federal Reserve districts. All Federal Reserve Banks will be required to use the appended forms in advising member and nonmember clearing banks of other Federal Reserve districts of the amount of service charges on each cash letter containing such items received direct from them. One of these forms may also be used by Federal Reserve Banks in advising their own member and nonmember clearing banks of such service charges. Inasmuch as such charges are for the service of handling such items, no such charge should be returned or rebated in case any such item is not paid.

(6) If a Federal Reserve Bank should receive a check drawn on a nonmember bank which will not remit at par in acceptable funds, it will use the following wording in stating the reason for returning such check:

"Not collectible through a Federal Reserve Bank under the Regulations of the Federal Reserve Board."

The Board requires that the above wording shall be used uniformly by all Federal Reserve Banks.

(7) Official checks and drafts of the Federal Reserve Banks are in payment of their own obligations or the obligations of the United States Government in Fiscal Agency operations; checks and warrants drawn on the Treasurer of the United States are likewise in discharge of obligations of the United States Government; the reserves of member banks

must be deposited with the Federal Reserve Banks and may be checked against under the Act, and since they are at liberty to issue such checks to whom they choose, the charge should, of course, not apply to such items. This matter is covered in the uniform circular attached.

The Board will in due course transmit to the Governor of each Federal Reserve Bank not represented upon the Standing Committee on Collections, for his information, a copy of the full report made by the Committee.

By direction of the Federal Reserve Board.

Very truly yours,

W. W. Hoxton,  
Secretary.

(Enclosures)

TO GOVERNORS OF ALL F. R. BANKS

UNIFORM CIRCULAR BASED UPON AMENDMENTS TO REGULATION J

COLLECTION OF CHECKS DRAWN BY, ENDORSED BY  
OR EMANATING FROM NON-MEMBER BANKS WHICH  
WILL NOT REMIT AT PAR IN ACCEPTABLE FUNDS.

(1) The Federal Reserve Board's Regulation J, Series of 1923,  
Section III, provides that:

"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.

"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, of one-tenth of one per cent, the minimum charge to be ten cents for each item."

(NOTE - The following are optional paragraphs (2), that is, one or the other must be used by each Federal Reserve Bank according to whether or not such Federal Reserve Bank will require its member and non-member clearing banks to list such items in separate cash letters, provided in "Fourth" paragraph of the report.)

(If separate cash letters are not required by a certain Federal Reserve Bank, that bank should use the following paragraph:)

(2) Pursuant to the foregoing regulation, the Federal Reserve Bank of \_\_\_\_\_ will make a charge of one-tenth of one per cent for the service of collecting each of such checks, the minimum charge to be ten cents for each item, and in order that this charge may be applied with the least possible confusion and delay and without occasion for differences, it is suggested that member and non-member clearing banks send such checks to the Federal Reserve Bank listed in separate cash letters and indicate on each such letter that such items included therein are "subject to charge." In other respects such cash letters should be prepared in the same manner as cash letters containing checks which are

not subject to the charge. Such service charges will be made against the reserve accounts of member banks or against the clearing accounts of non-member clearing banks, and appropriate advice or advices of such charges will be sent to member and non-member clearing banks daily, showing the total amount of the charge on each cash letter containing such items together with the date and total of the letter. Inasmuch as such charges are for the service of handling such items, no such charge will be returned or rebated in case any such item is not paid.

(If separate cash letters are required by a certain Federal Reserve Bank, that bank should use the following paragraph:)

(2) Pursuant to the foregoing regulation, the Federal Reserve Bank of \_\_\_\_\_ will make a charge of one-tenth of one per cent for the service of collecting each of such checks, the minimum charge to be ten cents for each item, and in order that this charge may be applied with the least possible confusion and delay and without occasion for differences, member and non-member clearing banks are required to send such checks to the Federal Reserve Bank listed in separate cash letters and to indicate on each such letter that such items included therein are "subject to charge." In other respects such cash letters should be prepared in the same manner as cash letters containing checks which are not subject to the charge. Such service charges will be made against the reserve accounts of member banks or against the clearing accounts of non-member clearing banks, and appropriate advice or advices of such charges will be sent to member and non-member clearing banks daily, showing the total amount of the charge on each cash letter containing such items together with the date and total of the letter. Inasmuch as such charges are for the service of handling such items, no such charge will be returned or

rebated in case any such item is not paid.

(3) Official checks and drafts of the Federal Reserve Banks, checks and warrants drawn upon the Treasurer of the United States, and checks and drafts drawn by member banks on their respective Federal Reserve Banks are not subject to such charge, even when such items are endorsed by or emanate from a non-member bank which will not remit at par in acceptable funds, and consequently such checks and drafts under all circumstances may be included in cash letters along with items not subject to the service charge.

(4) Member banks and non-member clearing banks may readily determine whether or not a particular item is subject to charge, if routed through a Federal Reserve Bank, by consulting the Federal Reserve Board's par list. When items drawn on all banks in any given town or city are collectible at par, opposite the name of such town in the par list will appear the words "All Banks". When there are several banks in any given town, one or more of which will not remit at par, opposite the name of the town in question will appear the words "All National Banks", if any, and thereunder the name of each state institution, member or non-member, which will remit at par in acceptable funds. Distribution of the Federal Reserve par list will be made as in the past.

(NOTE - The following paragraph should be used by Federal Reserve banks which will require member and non-member clearing banks to list such items in separate cash letters. It should not be used by those Federal Reserve Banks which will not require that such items be listed in separate cash letters)

(5) Member banks and non-member clearing banks must very carefully assort their items before sending them to the Federal Reserve Bank of \_\_\_\_\_ exercising care not to include any item, drawn by,

endorsed by or emanating from any non-member bank which will not remit at par in acceptable funds, in any letter containing checks which are not subject to the service charge of one-tenth of one per cent, since it would be difficult and confusing for the Federal Reserve Bank upon examination of all checks to apply the service charge against any such checks which are included with checks not subject to the service charge.

The Federal Reserve Bank of \_\_\_\_\_ will examine all cash letters received from member and non-member clearing banks, and if any items subject to the service charge are included in regular cash letters with items not subject to the service charge, the Federal Reserve Bank reserves the right to defer credit for such letter one business day longer, in order that it may have time to make thorough examination of all endorsements on all items included in such letter and separate and properly apply the service charge to those items contained in such letter which are drawn by, endorsed by, or which emanate from any such non-member non-par bank.