

Report to the Federal Reserve Board
by the Advisory Committee of Governors
of Federal Reserve Banks, on the so-
called "Claiborne-Adams Check
Collection Plan"

X-3800

Aug. 1, 1923.

Gentlemen:

In compliance with your request that we should make a statement of our views on the three subjects discussed at today's conference, we beg to advise you as follows:

Amended Regulation "J" suggested by Messrs. Claiborne
and Adams on behalf of the Committee of Five on Exchange
of the American Bankers' Association.

We are entirely and unanimously opposed to this plan for the following reasons:

(1) It would reinstate and perpetuate one of the most glaring faults of the old banking system - the creation of a fictitious reserve.

(2) It would be a substantial abandonment of the par collection system and would pave the way for the imposition upon the commerce and business of the country of an annual charge of over \$100,000,000.

(3) If immediate availability were to be given by each bank on all items in its district there would probably be added to the float over \$300,000,000, calculating simply on the basis of the present weekly consolidated statement of the System. In practice this float would be enormously increased.

Human nature being what it is, it is inconceivable that banks would not take advantage of the unusual opportunity afforded them. Instead of forwarding to their own Federal reserve bank checks payable in other Federal reserve districts, they would naturally send such items to correspondents in other Federal Reserve bank cities, which correspondents could deposit them in their own Federal reserve banks and receive immediate credit and availability without being subject to the exchange charge. This would result in giving immediate credit and availability for practically all checks, as received at each Federal reserve bank or branch. It is also evident that it would make possible unlimited "kiting".

(4) As these additional credits would be either checked out or used to reduce loans, there would not only be a reduction in the reserve ratio of the Federal reserve system but there would be a still further very large reduction in the actual reserves of the member banks which were practically cut in half when the Federal reserve system was established.

These objections might be elaborated and various others might be cited, but the mere enumeration of those stated above seems sufficient wholly to condemn the plan. In view of these considerations and of the further facts which were brought out at the hearing today, this Committee respectfully and earnestly recommends that the Board promptly announce its rejection of the proposed plan.

Effective date of Amended Regulation "J".

In view of the fact that a revision of the phraseology of amended Regulation J seems desirable, it is recommended that the postponement of the effective date for this Regulation be continued until further notice.

Changes in practice of making collections on banks, not willing to remit at par.

In order to conform to the fullest possible extent to the spirit, as well as the letter, of the recent decisions of the Supreme Court of the United States in the par clearance cases, it is recommended that the use of agents other than banks for the purpose of making collections at par of items upon non par-remitting banks be discontinued in any district where any such practice may now exist.

Respectfully,

(Signed) Geo. W. Norris,

(Signed) J. H. Case,

(Signed) J. B. McDougal,

(Signed) E. R. Fancher,

(Signed) W. P. G. Harding,

(Signed) Chas. A. Peple.

Advisory Committee of Governors.

The Federal Reserve Board,
Washington, D. C.