(COPY ) X-4031

Federal Reserve Bank
of Richmond

April 17, 1924.

Mr. Walter Wyatt, General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Wyatt:

Mr. Wallace has shown me your telegram of yesterday to him stating that the Board has determined to defer final action with respect to Regulation J until after the coming Conference of Governors, and that the regulation may be made a topic of discussion at that Conference. Mr. Wallace discussed with the officers of the Bank your letter of the 15th to him accompanying which was the last draft of Regulation J.

Inasmuch as the Board is aware that Mr. Wallace has collaborated with you in the verbal preparation of certain provisions of the regulation, which necessarily involved discussion with our officers, I do not think it inappropriate for me, as a result of the discussion of your letter with Mr. Wallace on yesterday, to transmit to you certain suggestions, relating specifically to Section V, paragraph (4).

Mr. Wallace participated, at your request, in a conference between you and Counsel of the Dallas bank, and we are, of course, aware of the conclusions arrived at and the reasons therefor. We have given very careful consideration to the changes incorporated by you in the draft of the regulation as a result of that conference, and we have arrived at the decision that it is highly advisable to change somewhat the form of paragraph (4). It is my understanding, of course, that, at the present stage, there is entire freedom of suggestion on your part and on the part of Mr. Wallace and on our part, the whole matter being in course of preparation for submission to the Board.

I regard paragraph (4) as being one of the most important in the regulation, and we have come to the conclusion that if we can make it follow as nearly as possible the language of the former Regulation J, it will be advisable from many points of view. We have, therefore, examined the former regulation, and are sending you herewith draft of that paragraph as we now believe would meet the requirements better than anything heretofore considered. If it does not meet the contention of the Counsel for the Dallas bank, it is to be regretted; but in our opinion, the peculiar situation of the Dallas bank should not necessarily determine the language of the paragraph, which would be applicable to all Federal Reserve Banks alike.

In the draft of paragraph as we submit it, you will notice a very close analogy between the two methods of collection, one by remittance and the other by charge to the drawee bank on the books of the Reserve Bank. In the one case, drafts on the reserve or clearing accounts or remittances in other immediately available funds are required; in the other case, the charge is made against the reserve accounts of the member banks and the clearing accounts. When the charge is made, it is at the expiration of the agreed transit time;

we are therefore of the opinion that there should be a provision that if remittance is not received at the expiration of the agreed transit time, there should be vested in the Reserve Bank the authority to charge the accounts of the delinquent banks. This authority may be by implication, vested in us by other terms of the regulation, but in our judgment it is very much better to have it specifically stated. This is the provision which may come in conflict with the argument of the Dallas bank. Nevertheless, we are of the opinion stated.

While I have stated that the new regulation should follow the language of the old regulation, there is one respect in which we think the time opportune for change, and we think it is of importance to make the change. The old regulation provides that when the remittance method of collection is in force, rather than the charge method, remittance shall be made in funds acceptable to the Federal Reserve Bank; there can be only one class of funds entirely acceptable to Federal Reserve Banks in dealing with members in this connection, that is immediately available funds, and it should be so expressed in our judgment. In dealing with nonmember banks, the term "acceptable funds" is used, which does not in practice, at least, always mean immediately available funds; but there is the strongest kind of reason in giving a Reserve Bank discretion as to the definition of "acceptable funds" in this connection in dealing with nonmembers, because in certain parts of the country (this being one of them) immediately available funds cannot be furnished by a very large number of banks.

In leaving the phraseology "acceptable funds" in the draft of the regulation applicable to member banks, there has been -- and there will continue to be -- great danger of their raising the contention that acceptable funds should mean in their case what it means in the case of nonmember banks. This cannot be; there is a wide distinction, and we believe now is the time to eliminate those words from the regulation, and that it is of extreme importance that they be eliminated.

Inasmuch as you are preparing a form for submission, as we understand it, I would suggest your adoption of paragraph (4) as we submit it to you herewith, or at least that you give it as an alternative paragraph, so that when the matter is presented it shall be in the most desirable form or, if there are two opinions, in alternative form. I recognize that conflicting opinions render your position in this matter a trying one.

Permit me to suggest, also, that should the Board decide to submit the regulation to the Conference of Governors, a copy of the proposed form of regulation be transmitted to each governor in advance, to permit him to discuss the matter with the operating department of his bank; this is a matter which the governors themselves would ordinarily refer to the Standing Committee on Collections for report and recommendation, but inasmuch as it is desirable to issue Regulation J with as little delay as possible, it would be advisable, in our opinion, to furnish the Reserve Banks with a copy of the regulation as proposed so that discussion may be had in advance of the Conference and decision reached in the Conference.

Very truly yours,

(signed) Geo. J. Seay,

GJS-CCP
Encls.

GEO. J. SEAY,
Governor.

SECTION V (4) - REGULATION J.

Checks received by a Federal Reserve Bank on its member or nonmember clearing banks will ordinarily be forwarded or presented direct to such banks, and such banks will be required to pay or remit therefor at par in cash or in drafts on their reserve or clearing accounts or in other immediately available funds, or to authorize the Federal Reserve Bank to charge their reserve accounts or clearing accounts; provided, however, that in case such remittance or authorization is not received by the Federal Reserve Bank from any such bank at the expiration of the agreed transit time between the Federal Reserve Bank and such bank, the Federal Reserve Bank shall have the right to charge such items to the reserve account or clearing account of such bank at the expiration of such time.