

FEDERAL RESERVE BOARD

X-4878

WASHINGTON

June 21, 1927

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Revision of Board's Regulations.

Dear Sir:

There is enclosed for your information a copy of a draft of a revision of all the Board's printed regulations, together with a copy of a memorandum prepared by the Board's General Counsel explaining each proposed change in the old regulations.

The enclosed draft of the regulations has been approved tentatively by the Federal Reserve Board, except that:

(1) The Board directed the preparation of an alternative draft of Section II(d) of Regulation D, defining savings accounts;

(2) In the matter of assessing penalties for deficiencies in reserves, the Board voted that, as to member banks located in reserve and central reserve cities, deficiencies should be computed on an actual daily basis instead of an average basis as heretofore, it being understood that the reserves for each day will be based upon the net deposit balances of the member bank at the close of business the preceding day; and, as to banks outside of reserve and central reserve cities, deficiencies should be computed on the basis of average reserves for weekly periods; and

(3) The Board directed that there should be prepared and added to the regulations a regulation on the subject of non-cash collections.

An alternative draft of Section II(d) of Regulation D, a redraft of Section IV of Regulation D to conform to the Board's views with reference to penalties for deficiencies in reserves, and a draft of a proposed regulation on non-cash collections are also enclosed herewith; and the Board requests an early expression of your views on the enclosed draft of the regulations with these changes. The proposed new regulation on non-cash collections was prepared very hastily, and you are requested to examine it with special care and to criticize it in detail.

Inasmuch as the Board's existing regulations are in some respects in conflict with the law as amended by the McFadden Act of February 25, 1927, the Board desires to promulgate a new edition of its regulations as soon as possible. The Board, therefore, has set July 20 as the date upon which it will take final action on these regulations, and, in order to receive any consideration, it will be necessary for your suggestions and comments to be received not later than July 15, 1927.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosures.

To Governors & Chairmen of all F. R. Banks.

(Alternative substitute for Section II(d) of Regulation D.)

(d) Savings Accounts. The term "savings accounts" is defined generally as accounts to the credit of which are deposited the savings or accumulations of small depositors, which bear interest, which are represented by pass books delivered to the depositors, which are not subject to check in the usual sense but can be withdrawn only upon the presentation of the pass book, and/^{as}to which the bank reserves the right to require the depositor to give notice of an intended withdrawal not less than thirty days before a withdrawal is made.

In order to constitute a "savings account" within the meaning of this regulation, a deposit must comply with the following requirements:

(1) It must be the deposit of an individual or of a religious, charitable or similar corporation and not the deposit of one bank in another or the deposit of a business corporation or firm;

(2) It must bear interest;

(3) It must be evidenced by a pass book, certificate or other similar form of receipt delivered to the depositor, which must actually be required to be presented to the bank whenever a withdrawal is made;

(4) It must not be subject to check in the usual sense and must not be permitted to be withdrawn except upon the actual presentation of the pass book, certificate or other similar form of receipt whenever a withdrawal is made;

(5) The amount must not exceed \$5,000; and

(6) The bank must reserve the right to require the depositor to give notice of an intended withdrawal not less than thirty days before a withdrawal is made.

(Substitute for Section IV of Regulation D)

SECTION IV. PENALTIES FOR DEFICIENCIES IN RESERVES.

Inasmuch as it is essential that the law in respect to the maintenance by member banks of the required minimum reserve balance shall be strictly complied with, the Federal Reserve Board, under authority vested in it by section 19 of the Federal Reserve Act, hereby prescribes the following rules governing deficiencies in reserves:

(a) Banks in Central Reserve and Reserve Cities.

(1) Deficiencies in reserve balances of all member banks located in central reserve and reserve cities will be computed on the basis of actual net deposit balances, the required reserve balance of each member bank at the close of business each day being based on its net deposit balances at the close of business on the preceding business day;

(2) Penalties for such deficiencies will be assessed monthly on the basis of actual daily deficiencies during the preceding month;

(3) Such penalties shall be assessed at a basic rate of 2% per annum above the Federal reserve bank discount rate on 90-day commercial paper;

(4) When a member bank in a central reserve or reserve city has an actual deficiency in reserves for fifteen or more days in any month, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty on daily reserve deficiencies, until such member bank has maintained the required reserves every day for a month. Such progressive penalty shall be at the rate of 1% for the first month and shall increase at the rate of 1% for each subsequent month thereafter in which the bank's actual reserves have been deficient for fifteen days or more; provided that the maximum penalty charged shall not exceed 10%.

(b) Banks not in Reserve or Central Reserve Cities.

(1) Deficiencies in reserve balances of member banks not located in central reserve and reserve cities will be computed on the basis of average daily net deposit balances covering a weekly period of seven days.

(2) Penalties for such deficiencies will be assessed monthly on the basis of average daily deficiencies during each of the weekly periods ending in the preceding month.

(3) Such penalties shall be assessed at a basic rate of 2% per annum above the Federal reserve bank discount rate on 90-day commercial paper.

(4) When a member bank not located in a central reserve or reserve city has had an average deficiency in reserves for four consecutive weekly periods, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty on weekly deficiencies until the required reserve has been restored and maintained for four consecutive weekly periods. Such progressive penalty shall be at the rate of 1% for the first four weeks and shall increase at the rate of 1/4 of 1% for each subsequent week thereafter in which the bank's average reserves have been deficient; provided that the maximum penalty charged shall not exceed 10%.

(c) Continued Deficiencies.

Whenever any member bank is subject to the maximum penalty of 10%, the Federal Reserve Agent shall promptly report the fact to the Federal Reserve Board with a recommendation as to whether or not the Board should:

(1) In the case of a national bank, direct the Comptroller of the Currency to bring a suit to forfeit the charter of such national bank under the provisions of Section 2 of the Federal Reserve Act; or

(2) In the case of a State member bank, institute proceedings to re-

quire such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership, pursuant to the provisions of Section 9 of the Federal Reserve Act; or

(3) In either case, to take such other action as the Federal Reserve Agent may recommend or the Federal Reserve Board may consider advisable.

(Note: Make this Regulation K; change old K to G; don't change designation of M.)

REGULATION K, SERIES OF 1927.

COLLECTION OF MATURING NOTES AND BILLS.

SECTION I. STATUTORY PROVISIONS.

Section 13 of the Federal Reserve Act authorizes Federal reserve banks to receive from their member banks and non-member clearing banks, for collection, maturing notes and bills and to receive from other Federal reserve banks for collection maturing notes and bills payable within the district of the Federal reserve bank receiving such items. The authority to receive such items for collection includes the authority to take such steps and perform such acts as may be necessary to effect collection, and to exercise such other powers as are reasonably incidental to the collection of such items.

SECTION II. DEFINITIONS.

(a) Maturing Notes and Bills. The term "maturing notes and bills" has been construed, and is hereby defined, to include:

1. Maturing notes, drafts, bills of exchange, acceptances, bankers' acceptances, and certificates of deposit;
2. Drafts on savings accounts with pass-books attached;
3. Checks, drafts and other cash items which have previously been dishonored;
4. Maturing bonds and coupons; and
5. All other negotiable instruments payable in the United States, except checks, bank drafts, and other cash items which have not been previously dishonored.

The term "maturing notes and bills" does not include checks, bank drafts, or certificates of deposit drawn on or payable by non-member banks and which cannot be collected at par in funds acceptable to the collecting Federal reserve bank.

(b) Nonmember Clearing Bank. The term "nonmember clearing bank" is defined to mean a nonmember bank or trust company which maintains with the Federal reserve bank of the district in which it is located a balance sufficient to qualify it under Section 13 of the Federal Reserve Act to send cash items to the Federal reserve bank for purposes of exchange or collection under Regulation J.

SECTION III. GENERAL REQUIREMENTS.

The Federal Reserve Board, desiring to afford to the public and to the various banks of the country a direct, expeditious and economical system for the collection of maturing notes and bills, has arranged to have all Federal reserve banks collect maturing notes and bills on a uniform basis and on the terms and conditions hereinafter prescribed.

SECTION IV. ITEMS RECEIVED FOR COLLECTION.

(a) Each Federal reserve bank will receive from its member and nonmember clearing banks, for collection on the terms and conditions hereinafter prescribed, all items defined in Section II as "maturing notes and bills."

(b) Each Federal reserve bank will receive from other Federal reserve banks, and from all member banks and nonmember clearing banks in other districts which are authorized to route direct for the credit of their respective Federal reserve banks, for collection on the terms and conditions hereinafter prescribed, all items defined in Section II as "maturing notes and bills".

(c) No Federal reserve bank shall receive for collection any check, bank draft, or certificate of deposit drawn on or payable by a nonmember bank which cannot be collected at par in funds acceptable to the Federal reserve bank of the district in which such non-member bank is located, nor any item payable outside of the Continental United

SECTION V. TERMS OF COLLECTION.

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The Federal Reserve Board hereby authorizes the Federal reserve banks to handle such maturing notes and bills subject to the following terms and conditions; and each member bank and nonmember clearing bank which sends maturing notes and bills to any Federal reserve bank for collection shall by such action be deemed: (a) to have agreed to all the terms and conditions of this regulation; (b) to have warranted to the Federal reserve banks that it has authority to empower the Federal reserve banks to handle items in the manner hereinafter provided; and (c) to have agreed to indemnify any Federal reserve bank for any loss resulting from the failure of such sending bank to have such authority.

1. Federal reserve banks will act only as the collecting agents of the sending banks and will be responsible only for due diligence and care in forwarding or presenting such items.

2. Federal reserve banks may present or forward such items for payment in cash or bank draft, direct to the banks on which they are drawn, at which they are payable, or through which they are collectible; or present them direct to the person, firm or corporation on which they are drawn, for payment in cash or bank check; or, if the item is not payable in a city in which there is a Federal reserve bank or a branch of a Federal reserve bank, then they may, in their discretion, forward them to another agent with the same authority that they have to present or forward them for payment.

3. Items payable in another district will be forwarded to the Federal reserve bank of such district or to a branch of such

Federal reserve bank for collection on the terms and conditions herein prescribed.

4. Except as herein provided, Federal reserve banks shall be hold liable only when they have received actual payment in cash or in the proceeds of any bank draft or check received in remittance.

SECTION VI. CREDIT FOR REMITTANCES.

No Federal reserve bank shall credit the reserve account of any member or nonmember clearing bank with the amount of any maturing note or bill until a remittance for such item has actually been received in funds acceptable to such Federal reserve bank. Upon the receipt of such a remittance, the Federal reserve bank will give credit in the reserve account of the member bank from which such item was received or in the clearing account of the nonmember clearing bank from which such item was received. Such credit, however, shall be subject to final payment of the remittance so received and, in the event of the failure of the Federal reserve bank to receive payment of any remittance in actually and finally collected funds, the amount thereof shall be charged to the reserve account or clearing account of the bank from which the item or items covered by such remittance were received.

SECTION VII. CHARGES FOR COLLECTION.

(a) Charges by Federal Reserve Banks.

No charge shall be made by any Federal reserve bank for the service performed by it in the collection of maturing notes and bills, except that:

- (1) Any charge made by another collecting agent shall be deducted and credit given for the actual net proceeds;
- (2) The actual expense of registration, insurance, or transportation of bonds and coupons forwarded to other points for collection shall be deducted and credit given for the actual net proceeds;
- (3) All telegraph and telephone charges in connection with the collection of maturing notes and bills shall be charged to the bank making the request involving such expense; and
- (4) A service charge of fifteen cents per item on all maturing notes and bills returned unpaid and unprotected shall be charged to the bank from which such items were received for collection. This charge shall not be made on items that are protested.

(b) Charges by Collecting Agents.

Any member bank or nonmember bank selected by the Federal reserve bank as an agent to collect maturing notes and bills received under the terms of this regulation may make a reasonable charge for its services in handling such maturing notes and bills.

(c) Charges by Member Banks and Nonmember Banks from which items are received.

Any member bank or nonmember clearing bank sending maturing notes and bills to a Federal reserve bank for collection under the terms of this regulation may, at its option, make a reasonable charge to its customers for its services in handling such items.

SECTION VIII. OTHER RULES AND REGULATIONS.

Each Federal reserve bank shall also promulgate rules and regulations not inconsistent with the terms of the law or of this regulation governing the details of the collection of maturing notes and bills by such Federal reserve bank. Such rules and regulations shall be set forth by each Federal reserve bank in its letter of instructions to its member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends maturing notes and bills for collection to such Federal reserve bank or to any other Federal reserve bank for the account of such Federal reserve bank.