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X-6592

FEDERAL RESERVE BANK
OF BOSTON

December 7, 1929

Federal Reserve Board,
Washington, D. C.

Dear Sirs:

In reply to your letter of November 27, 1929 (X-6429), relative to the suggested change in recent amendment to Regulation J, and you are advised that we agree with the General Counsel in his opinion expressed in a letter to the Board of November 13, 1929 (X-6429-b) and believe that it would not be desirable to make the further amendment to Regulation J suggested in the correspondence you enclose (X-6429-a).

Yours very truly,

(S) W. W. Paddock,
Deputy Governor.

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X-6592-a

FEDERAL RESERVE BANK
OF NEW YORK

December 4, 1929.

Federal Reserve Board,
Washington, D. C.

S i r s:

Receipt is acknowledged of your letter of November 27, 1929 (X-6429), enclosing copy of letter dated October 22, 1929 (X-6429-a) from Mr. Blair, Deputy Governor of the Federal Reserve Bank of Chicago, and copy of memorandum of Mr. Wyatt dated November 13, 1929 (X-6429-b), all with reference to a change suggested by Mr. Blair in the recent amendment, to be effective January 1, 1930, to paragraph 6 of Section V of Regulation J, this change being designed to protect the Federal Reserve Banks against claims arising out of the failure of a bank other than the drawee bank to which checks have been forwarded by the Federal Reserve Banks for collection.

We have considered the suggested change and agree with Mr. Wyatt that it is not advisable.

Very truly yours,

(S) George L. Harrison,
Governor.

FEDERAL RESERVE BANK
OF RICHMOND

November 29, 1929.

SUBJECT: Suggested Change in the Recent Amendment to
Regulation J.

Federal Reserve Board,
Washington, D. C.

Dear Sirs:

We are in receipt of the Board's letter X-6429, November 27, under the above caption.

So far as this bank is concerned, it will be immaterial whether the recent amendment to Regulation J be left in its present form or changed in the manner suggested, but it would perhaps be desirable to have the regulation in such form as to cover all the transactions or practices of Federal Reserve Banks of this character. Since the regulation is intended to prescribe the exact form of contract into which Federal Reserve Banks may enter with their member banks, in order to preserve the fundamental relationship of agency it would, perhaps, be better for the form of regulation to cover all transit operations of whatever kind, as alluded to above.

The object is not so much to afford further protection to Federal Reserve Banks, as intimated in the last paragraph of the Board's General Counsel, as to make the regulation uniformly applicable in all transit operations with member banks, and avoid giving any preference to the holder or owner of the checks in the assets which Federal Reserve Banks may chance to hold for those banks through which checks are sent for collection when they happen not to be drawee banks.

Yours very truly,

GJS-CCP

(S) GEO. J. SEAY,
Governor.

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FEDERAL RESERVE BANK OF CHICAGO

230 South LaSalle Street

November 30, 1929

SUBJECT: Suggested Change to Recent Amendment
of Regulation J.

Mr. E. M. McClelland, Assistant Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. McClelland:-

I have your letter of the 27th instant enclosing copy of Board's letter X-6429 concerning amendment to paragraph 6, Section 5, Regulation J. This bank favors the proposed amendment of the amendment, so that paragraph 6 will read as set out in your letter addressed to Governors of all the Federal Reserve Banks, included in X-6429.

After reading Mr. Wyatt's letter included in X-6429, I am inclined to the opinion that he did not quite understand my suggestion as to the correction of paragraph 6. I am enclosing herewith copy of letter which I have just written Mr. Wyatt on the subject.

Very truly yours,

(S) J. H. Blair,
Deputy Governor.

K

(Copy)

X-6592-d

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November 30, 1929

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

Dear Mr. Wyatt:-

I have just read your letter to the Board included in Board's letter X-6429 in regard to the suggested change in recent amendment to Regulation J, and it seems to me that you did not quite get the full reasons for further amendment of paragraph 6 suggested in my letter to the Board of October 22nd. It is possible I did not make myself quite clear in that letter.

I do not think the Federal Reserve Banks need any further protection in the selection of a collecting agent. We already have that protection in paragraph 2, Section 5 of Regulation J and in paragraph 6, Section 5 as it originally read, and which authorizes us to charge back to the forwarding bank the amount of any check for which payment in actually and finally collected funds is not received, regardless of whether or not the check itself can be returned.

It is my understanding that the purpose of the original amendment to paragraph 6 was to protect us against claims that might be made by depositing banks upon any funds in our possession belonging to the closed bank in which their items were involved. Such closed bank might be either the drawee bank or any other collecting agent bank and the need for such protection is just as great in one case as in the other.

For instance, the forwarding bank might conclude that the member bank to which we forwarded the checks for collection and which actually collected the checks from the payee bank, but which closed before remittance was made to us, might be liable for some reason for the amount of such checks and proceed against us by attachment of the reserve account or other property of the closed bank in our hands. In such an event, I think we would need the same protection against the collecting bank as we would against the drawee bank.

Very truly yours,

Deputy Governor.

K

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X-6592-e

FEDERAL RESERVE BANK
OF
ST. LOUIS

December 7, 1929.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

The subject of your letter X-6429, bearing date of November 27, 1929, has been discussed in this office and also presented to our Counsel for his views. Copy of Counsel's memorandum on the subject is enclosed.

While from a legal standpoint it makes little difference in this district whether the change suggested by Chicago is or is not adopted, the concensus of opinion of the officers is that it is desirable and advisable to make the change suggested.

Yours very truly,

(S) Wm. McC. Martin,
Governor.

December 6, 1929.

Mr. Wm. McC. Martin, Governor,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Governor:

RE: Suggested changes in wording of
Paragraph 6, Section V, Regulation J.

I have before me the letter of Mr. J. H. Blair, Deputy Governor of the Federal Reserve Bank of Chicago and the Federal Reserve Board's letter X-6429, Subject: Suggested changes in recent amendment to Regulation J, and your verbal request for any comments I cared to make on the subject.

I can offer no objection to the suggested change since it would clarify the intention of Paragraph 6, Section V, Regulation J, and would take care of a case where the collecting bank was not the drawee and where the owner might successfully claim that the Regulation, as worded, did not apply and that the Reserve bank was negligent in not appropriating the member bank's balances and/or capital stock returns in payment for the unremitted for items.

However, I do not believe in the States included in the 8th Federal Reserve District the Reserve Bank will be called upon to respond under such circumstances for the Massachusetts rule prevails in practically all these State making the collecting bank the agent of the owner of the item instead of the agent of the Reserve Bank.

Further, in States included in the District, the owner would have a preferred claim against the collecting bank whether the collecting bank be a State or National Bank, and in all probability would be paid in full; consequently, as far as the wording is concerned it would make no difference whether the amendment be left as it is, or changes as suggested, for there is little likelihood that the owner of the item will suffer any loss.

Very truly yours,

(Signed) Jas. G. McConkey
Counsel.

C O P Y

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FEDERAL RESERVE BANK
OF MINNEAPOLIS

December 3, 1929.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

Referring to yours of November 27th (x6429), our Counsel has gone over the suggestion of Mr. Blair for a change in Paragraph 6, Section V of Regulation J, and we concur with Mr. Blair's views, believing that the change he recommends is desirable.

Yours very truly,

(S) W. B. Geery
Governor

WBG-C

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FEDERAL RESERVE BANK
OF DALLAS

December 4, 1929.

Federal Reserve Bank,
Washington, D. C.

Gentlemen: Attention Mr. E. M. McClelland, Asst. Secy.

Reference is made to Board's letter X-6429, dated November 27, 1929, on the subject "Suggested Change in Recent Amendment to Regulation J."

We referred this matter to our Counsel for an opinion and they have advised that they do not feel that the point raised is of sufficient importance to justify another amendment to Regulation J.

They state further that it is extremely important that Regulation J be amended as little as possible, and that therefore it is their view that a further amendment should not be made to cover Deputy Governor Blair's point.

Yours very truly,

(S) Lynn P. Talley,
G o v e r n o r

FEDERAL RESERVE BANK OF SAN FRANCISCO

December 3, 1929.

Federal Reserve Board,
Washington, D. C.Subject: Suggested change in
Regulation J. X-6429.

Dear Sirs:

It is our belief that the question raised by Deputy Governor Blair, of the Federal Reserve Bank of Chicago, regarding the recent amendment to paragraph 6 of Section V, Regulation J, is well taken.

Regulation J, Section V, paragraph 2, states:

"A Federal reserve bank may present such checks * * * direct to the bank on which they are drawn * * * or in its discretion may forward them to another agent" * * *

Regulation J, Section V, paragraph 3, states:

"A Federal reserve bank may at its discretion * * * either directly or through an agent, accept * * * bank drafts in payment * * * for such checks, and shall not be held liable for any loss resulting from the acceptance of bank drafts in lieu of cash * * * nor for the nonpayment of any draft accepted in payment or as a remittance from the drawee bank or any agent."

Regulation J, Section V, paragraph 6, should be amended by inserting the words "or other agent," as follows:

"The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank regardless of whether or not the check itself can be returned. In such event, neither the owner nor holder of any such check, nor the bank which sent such check to the Federal reserve bank for collection, shall have any right of recourse upon, interest in, or right of payment from, any funds received, collateral, or other property of the drawee bank, or other agent, in the possession of the Federal reserve bank."

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This change will harmonize with the intent of the other provisions of Section V, Regulation J, and will afford the Federal reserve banks the necessary protection when selecting agents other than drawees in effecting collection of checks.

Yours very truly,

(S) J. U. Calkins,
GOVERNOR.