

PROPOSED AMENDMENT TO REGULATION J.

(Prepared by Mr. Wyatt in July, 1929, but not sent out)

SECTION V. TERMS OF COLLECTION.

The Federal Reserve Board hereby authorizes the Federal reserve banks to handle such checks subject to the following terms and conditions; and each member and nonmember clearing bank which sends checks to any Federal reserve bank for deposit or collection shall by such action be deemed (a) to authorize the Federal reserve banks to handle such checks subject to the following terms and conditions, (b) to warrant its own authority to give the Federal reserve banks such authority, and (c) to agree to indemnify any Federal reserve bank for any loss resulting from the failure of such sending bank to have such authority.

(1) A Federal reserve bank will act only as agent of the bank from which it receives such checks and will assume no liability except for its own negligence and its guaranty of prior indorsements.

(2) A Federal reserve bank may present such checks for payment or send such checks for collection direct to the bank on which they are drawn or at which they are payable, or in its discretion may forward them to another agent with authority to present them for payment or send them for collection direct to the bank on which they are drawn or at which they are payable.

(3) A Federal reserve bank may, in its discretion and at its option, either directly or through an agent, accept in payment of or in remittance for such checks:

- (a) Cash,
- (b) Bank drafts,
- (c) Telegraphic transfers of bank credits, or
- (d) Specific authorizations for such Federal reserve bank to charge to the reserve accounts or clearing accounts of the paying or remitting banks the amounts for which payment or remittance is to be made. *

The Federal reserve bank shall not be liable for the failure of the drawee bank or any agent to remit for such checks, nor for any loss resulting from the acceptance, in lieu of cash, of any other form of payment or remittance authorized herein, nor for the nonpayment of any bank draft, telegraphic transfer of bank credit or authorization to charge the reserve account or clearing account which may be accepted in payment or as a remittance from the drawee bank or any agent.

*(Foot Note: An authorization to charge the reserve account or clearing account of the paying or remitting bank should preferably be in the form of a bank draft drawn by such paying or remitting bank on the Federal reserve bank; but, where deemed advisable for practical reasons, and by previous arrangement with the Federal reserve bank, an informal authorization may be used, provided it is in writing, is for a specific amount and is given in remittance or payment for a specific "cash letter" or "cash letters." No Federal reserve bank shall accept or act upon a general authorization to charge the amount of any and all checks to the reserve account of a drawee bank."

(4) Where a member bank or a nonmember clearing bank undertakes to make a payment or remittance for checks handled pursuant to the terms of this regulation by draft or other order drawn upon the Federal reserve bank or by authorizing the Federal reserve bank to charge the amount thereof to the reserve account or clearing account of such member bank or nonmember clearing bank, such draft, order or authorization shall be subject to acceptance by the Federal reserve bank in its discretion, and shall not be deemed a payment or remittance until it has been received by the Federal reserve bank and the charge has actually been entered on the books of the Federal reserve bank. No draft, authorization to charge the reserve account or clearing account, or other order upon funds of a paying or remitting bank in the possession of a Federal reserve bank, issued for the purpose of paying or remitting for checks handled under the terms of this regulation, shall be paid or honored after receipt by such Federal reserve bank of official notice of the suspension or closing of such paying or remitting bank for insolvency. Where such a charge is made inadvertently after receipt of such notice, the book entry may be reversed at any time before the close of business on the same day and, when this is done, the situation shall be deemed to be the same as if such charge had never been made.

(5) Checks received by a Federal reserve bank drawn on its own member or nonmember clearing banks will ordinarily be forwarded or presented direct to such banks, and such banks will be required to remit or pay therefor at par in one or more of the forms of payment or remittance authorized under paragraph (3) hereof.

(6) Checks received by a Federal reserve bank payable in other

districts will be forwarded for collection upon the terms and conditions herein provided to the Federal reserve bank of the district in which such checks are payable.

(7) Bank drafts received by a Federal reserve bank in payment of or in remittance for checks handled under the terms of this regulation will likewise be handled for collection subject to all the terms and conditions of this regulation.

(8) 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 or 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 fund, reserve, collateral or other property of the drawee bank in the possession of the Federal reserve bank.