

## EXCERPT FROM THE REPORT OF THE STANDING COMMITTEE ON COLLECTIONS

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TO THE

CONFERENCE OF GOVERNORS, SPRING, 1930.

Acceptance by Federal Reserve Banks of Cash Letters from Non-Member Banks for the Credit of Member Banks

The Committee has been advised by one of the Federal reserve banks that several of its large member banks located outside of the Federal reserve city have submitted on a number of occasions a plan under which their country non-member bank correspondents would prepare daily cash letters on the letter-heads of the member banks, which letters would be dispatched direct by the non-member banks to the Federal reserve bank for the credit of its member banks. The checks would be endorsed by each non-member bank with a double endorsement stamp bearing the name of both the member bank and the non-member bank. Under the plan the member bank would receive credit at the Federal reserve bank without having to handle the checks. Since a matter of policy, which should be uniform in all Federal reserve districts, is involved in the question as to whether or not such practice should be permitted, the subject was referred to the Standing Committee on Collections for consideration and report to the next Conference of Governors.

In reporting to the Governors' Conference of April 1, 1929, on the subject of transfers requested by non-member banks, the Committee expressed the opinion that under a strict interpretation of Section 13 of the Federal Reserve Act, Federal reserve banks cannot receive deposits of any description from non-member banks even if such deposits are for the credit of member banks. It was felt, however, that the acceptance from non-member banks of certain remittances for the credit of member banks was desirable

and might be defended on the ground that the non-member banks in making the deposits were acting as agents of the member banks receiving credit for the deposits. In its report the Committee recommended that Federal reserve banks should accept from non-member banks for the credit of member banks only one form of remittance, namely, a non-member bank's own draft on a clearing house bank in the city of the Federal reserve bank or one of its branches, and then only in case the member bank receiving credit has authorized the Federal reserve bank to accept the deposit subject to the same terms and conditions that would prevail if the deposit had been made by the member bank itself. The Governors approved this recommendation and the Federal Reserve Board in its letter of November 4, 1929 (X-6407) made the action mandatory upon all Federal reserve banks.

In the opinion of the Committee this action precludes the sending by non-member banks to Federal reserve banks for the credit of member banks of any items except their own drafts drawn on specific points. Even if this were not the case, in the opinion of the Committee Federal reserve banks should under no conditions accept miscellaneous checks from non-member banks. Such a procedure would as a practical matter throw open the collection facilities of the Federal Reserve System to non-member banks without requiring them to become members or to contribute in any way to its maintenance. Such banks would receive credit on the member banks' accounts just as soon as they would if they themselves maintained accounts. Questions involving liability, endorsements, etc., as well as the mechanics of procedure would be presented, and it is the belief of the Committee that the operation would result in greatly increased expense to the Federal Reserve System. The Committee is strongly of the opinion that such procedure should not be permitted under any circumstances.