

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7227

August 11, 1932.

SUBJECT: Collection of Drafts Drawn by Business
Concerns on Themselves Which are Not
Payable at or Through Designated Banks.

Dear Sir:

There is inclosed for your information, a summary of the telegrams received in response to our telegram of August 1, 1932, inquiring on behalf of the Treasury Department what the attitude of the Federal reserve banks would be as to handling checks drawn by business concerns on themselves which are not payable at or through designated banks, especially in the light of the third paragraph of Article 36 of Regulations No. 42 of the Bureau of Internal Revenue, as amended by Treasury Decision No. 4344 on July 29, 1932.

Notwithstanding the action of the recent Conference of Governors in approving the report on this subject rendered July 14, 1932, by the Standing Committee on Collections and in voting that the practice regarding this subject should be uniform throughout the Federal Reserve System, you will note that the practices of the various Federal reserve banks as

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described in their telegrams to the Board are not at all uniform.

Attention is invited to the telegram from Governor Calkins, quoted at the end of the summary, suggesting that this subject should again be reviewed with the thought of reversing the action of the Conference; and there are inclosed for your further information a copy of another telegram on this subject addressed to the Board by Governor Calkins on August 8 and a copy of our reply.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

August 4, 1932.

SUMMARY OF TELEGRAMS FROM FEDERAL RESERVE BANKS
RE COLLECTION OF DRAFTS DRAWN BY BUSINESS CON-
CERNS ON THEMSELVES WHICH ARE NOT PAYABLE AT OR
THROUGH DESIGNATED BANKS.

BOSTON: Our volume of drafts drawn by business concerns upon themselves which are not payable at or through a designated bank has not been large and we have been able to handle such drafts as collection items. However, if volume of such items should increase to appreciable extent it is our feeling that we should decline to handle them in any way.

NEW YORK: It is the practice of this bank to accept and handle checks drawn by business concerns upon themselves which are not payable at or through a designated bank in this district only as cash items and only where we have received advice from a bank that it will remit to us for such checks at par. We will not receive such items from New York City Banks either as cash or non cash when payable in other districts. At present for convenience occasional items of this character received from our own out of town member banks payable in other districts are charged back and entered for collection. If volume of such items payable in other districts should materially increase will refuse to handle them on any basis.

PHILADELPHIA: We will handle checks drawn by business concerns upon themselves which are not payable at or through a designated bank as non cash collection items.

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- CLEVELAND: When we are authorized by banks to include such items referred to in cash letter and that they will be remitted for at par and without delay we will handle as cash items.
- RICHMOND: Our general attitude is that we will not handle items drawn by business concerns upon themselves which are not payable at or through a designated bank.
- ATLANTA: For several years we have handled for collection at par drafts drawn by corporations on themselves or their officials. This has been done principally through banks in clearing house cities. This arrangement may be extended further provided member banks or par remitting banks will permit us to forward them as cash items and remit to us at par.
- CHICAGO: Replying your wire yesterday inquiring what our attitude will be as to handling checks drawn by business concerns upon themselves which are not payable at or through a designated bank we have been handling such items since effective date of tax as cash items where they can be collected at par in acceptable funds where they cannot be so collected we decline to handle at all this policy has proved satisfactory and it does not seem necessary to change it at this time.
- ST. LOUIS: We believe it in the best interests of the bank collection system and of being of service to member banks that checks drawn by business concerns upon themselves which are not

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payable at or through a designated bank be handled as cash in all instances, where by experience it develops that the collecting agent will so handle them.

MINNEAPOLIS: We will have to handle checks described as noncash items but think that practice should be uniform in all reserve banks and prefer to have board issue regulations binding on all banks covering this point.

KANSAS CITY: Following conference of Governors in Washington last month this bank, contrary to its former policy and belief as to proper method of handling drafts drawn by the makers on themselves adopted the procedure recommended by standing committee on collections and approved by Governors Conference and accordingly issued circular letter to member banks under date of July 19 stating that we would until further notice handle as cash items drafts drawn by makers on themselves without designating the bank through which payable where satisfactory arrangements have previously been made for the payments of such drafts through certain banks and that such drafts would not hereafter be handled as non cash collections. We volunteered the further observation that member banks should discourage the making of arrangements of this nature where the name of the bank through which the items are to be handled is not designated. After consideration of amended treasury regulation, we see no reason to change this procedure.

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DALLAS: Items drawn directly on the maker without designation of bank through which payable have been in existence in this district for a number of years. Among other uses, it is practice of representatives of firms purchasing cotton and other commodities to draw on their companies or their officers without, in many cases, designating name of bank where payable. We have handled these and similar items as non cash collections for a number of years. If we should attempt to discontinue handling items where there is an apparent effort to evade the tax, we would be confronted with considerable difficulty in attempting to segregate them from those of the kind mentioned above, which manifestly we should not discontinue handling. We therefore believe it would be desirable to handle checks drawn by business concerns upon themselves which are not payable at or through a designated bank as non cash items.

SAN FRANCISCO: This bank would not consider handling as cash items drafts drawn by business concerns on themselves which are not payable at or through a designated bank. We further feel that Reserve Banks should not accept as cash items drafts on business concerns payable through Banks (as distinguished from drafts payable at banks). These non-bank drafts increase the expense of handling to all banks and a firm policy on the part of Federal Reserve Banks in refusing to accept as cash items would undoubtedly aid in discouraging growth of practice. Our experience indicates

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impossible to know which items marked payable through a bank will be handled as cash. Even items on same drawee are handled by same bank in different manner on different occasions. Problem of Federal Reserve Bank is aggravated when items received from distant districts. Believe subject should again be reviewed with thought of reversing action of conference.

T E L E G R A M
FEDERAL RESERVE SYSTEM
(Leased Wire Service)

Received at Washington, D. C.

20gmr

San Francisco 513p Aug 8/9

Board,

Washington.

Referring Board's wire August first, our reply second, would appreciate knowing whether Board has approved system policy acceptance as cash items by reserve banks of drafts drawn on individuals firms or corporations marked "Collectible through" "Payable through" etc., a designated bank we have not been accepting these items but find ourselves confronted with demands to do so brought about by circulars of other federal reserve banks stating such drafts accepted on basis policy agreed to by governors at recent conference. Question herein raised does not refer to handling drafts drawn payable "at" a bank inasmuch as bank designated in such circumstances may legally pay or reject the item upon presentation without any further action of drawee individual firm of corporation. Please wire reply.

Calkins

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C O P Y

X-7227-c

August 10, 1932.

Calkins,
San Francisco.

Referring your wire August 8 stop It has not been Board's practice to regulate collection by Federal reserve banks of items other than checks and drafts as defined in Regulation J or to approve or disapprove System policies regarding collection of non-cash items; and Board has taken no action on System policy adopted at conference of July 15, 1932, re handling drafts drawn by business concerns on themselves stop In view of amendment to Treasury regulations as to taxability of such items and considerations stated in your wire August 2, it would seem appropriate for you, as Chairman of Governors' Conference, to arrange for reconsideration of System policy by all Federal reserve banks stop Replies to Board's wire August 1 disclose lack of uniformity in practices of Federal reserve banks and summaries are being mailed to all Governors for their information.

MC CLELLAND