



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 27, 1939.

Dear Sir:

Advice has been received from Mr. Harrison, Chairman of the Presidents' Conference, that the report of the Standing Committee on Collections, dated April 22, 1939, has been approved by the Presidents of all Federal Reserve banks.

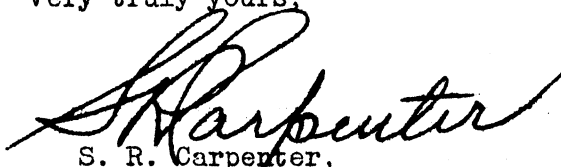
The Board concurs in the action of the Presidents and approves the recommendations contained in the Committee's report.

Regulation J in the revised form, a copy of which is enclosed, will be adopted by the Board when the drafts of the cash collection circulars and the time schedules referred to in the Board's letter S-157 of April 8 have been received and reviewed so that an effective date for the revised regulation may be fixed. The effective date will be sufficiently far in advance to allow for the printing of the regulation, the check collection circulars and the time schedules and their simultaneous release by all Reserve banks about two weeks in advance of the effective date.

The Board contemplates issuing a press statement on the subject of check collections at the time the amended regulation is released for publication, advance copies of which will be furnished your bank, and in the meantime it is suggested that the matter be treated as confidential.

It will be appreciated if you will forward to the Board as soon as practicable the revised time schedules between Federal Reserve bank and branch cities for its approval, together with two copies of your cash collection circular with the approved changes incorporated therein. Minor changes in wording made in Section 5 of Regulation J "Terms of Collection" since the date of the Committee's report should, of course, be incorporated in that section as printed in the collection circular.

Very truly yours,

  
S. R. Carpenter,  
Assistant Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

## REGULATION J

As amended effective \_\_\_\_\_, 1939

(Superseding Regulation J, Series of 1930)

CHECK CLEARING AND COLLECTION

## SECTION 1. STATUTORY PROVISIONS

Section 16 of the Federal Reserve Act authorizes the Board of Governors of the Federal Reserve System to require each Federal Reserve bank to exercise the functions of a clearing house for its member banks, and section 13 of the Federal Reserve Act, as amended by the Act approved June 21, 1917, authorizes each Federal Reserve bank to receive from any nonmember bank or trust company, solely for the purposes of exchange or of collection, deposits of current funds in lawful money, national-bank notes, Federal Reserve notes, checks and drafts payable upon presentation, or maturing notes and bills, provided such nonmember bank or trust company maintains with its Federal Reserve bank a balance sufficient to offset the items in transit held for its account by the Federal Reserve bank.

## SECTION 2. GENERAL REQUIREMENTS

In pursuance of the authority vested in it under these provisions of law, the Board of Governors of the Federal Reserve System, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal Reserve bank exercise the functions of a clearing house and collect checks for such of its member banks as desire to avail themselves of its privileges and for such nonmember State banks and trust companies as may maintain with the Federal Reserve bank balances sufficient to qualify them under the provisions of section 13 to send items to Federal Reserve banks for purposes of exchange or of collection. Such nonmember State banks and trust companies will hereinafter be referred to as nonmember clearing banks.

Each Federal Reserve bank shall exercise the functions of a clearing house and collect checks under the general terms and conditions hereinafter set forth, and each member bank and nonmember clearing bank shall cooperate fully in the system of check clearance and collection for which provision is herein made.

## SECTION 3. CHECKS RECEIVED FOR COLLECTION

(1) Each Federal Reserve bank shall receive at par from member and nonmember clearing banks in its district, from other Federal Reserve banks, and from all member and nonmember clearing banks in other Federal Reserve districts which are authorized to route direct for the credit of their respective Federal Reserve banks, checks<sup>1</sup> drawn on all member and nonmember clearing banks of its district, and checks drawn on all other nonmember banks of its district which are collectible at par in funds acceptable to it.

(2) Each Federal Reserve bank may receive at par from member and nonmember clearing banks in its district, checks drawn on all member and nonmember clearing banks in other Federal Reserve districts, and checks drawn on all other nonmember banks in other Federal Reserve districts which are collectible at par in funds acceptable to the collecting Federal Reserve bank.

(3) No Federal Reserve bank shall receive on deposit or for collection any check drawn on any nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve bank.

## SECTION 4. TIME SCHEDULE AND AVAILABILITY OF CREDITS

(1) Each Federal Reserve bank will publish a time schedule showing the time at which any item sent to it will be counted as reserve and become available for withdrawal or other use by the sending bank. For all checks received, the sending bank will be given immediate credit, or deferred credit, in accordance with such time schedule, and as provided below.

(2) For all such checks as are received for immediate credit in accordance with such time schedule, immediate credit, subject to final payment, will be given upon the books of the Federal Reserve bank at full face value in the reserve account or clearing account upon day of receipt, and the proceeds will at once be counted as reserve and become available for withdrawal or other use by the sending

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<sup>1</sup>A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to the order of a certain person therein named, or to him or his order, or to bearer, and payable on demand.

bank; provided, however, that the Federal Reserve bank may in its discretion refuse at any time to permit the withdrawal or other use of credit given for any item for which the Federal Reserve bank has not yet received payment in actually and finally collected funds.

(3) For all such checks as are received for deferred credit in accordance with such time schedule, deferred credit, subject to final payment, will be entered upon the books of the Federal Reserve bank at full face value, but the proceeds will not be counted as reserve nor become available for withdrawal or other use by the sending bank until such time as may be specified in such time schedule,<sup>2</sup> at which time credit will be transferred from the deferred account to the reserve account or clearing account subject to final payment and will then be counted as reserve and become available for withdrawal or other use by the sending bank; provided, however, that the Federal Reserve bank may in its discretion refuse at any time to permit the withdrawal or other use of credit given for any item for which the Federal Reserve bank has not yet received payment in actually and finally collected funds.

#### SECTION 5. TERMS OF COLLECTION

The Board of Governors of the Federal Reserve System 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; (c) to agree to indemnify any Federal Reserve bank for any loss or expense sustained (including but not limited to attorneys' fees and expenses of litigation) resulting from the failure of such sending bank to have such authority, or resulting from such Federal Reserve bank's guaranty of prior endorsements, or resulting from any action taken by the Federal Reserve bank within the scope of its authority for the purpose of collecting such checks; and (d) to guarantee all prior endorsements on such checks whether or not a specific guaranty is incorporated in an endorsement of the sending bank.

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<sup>2</sup>For rules for computation of reserves and penalties for deficiencies in reserves, see Regulation D, Secs. 2 and 3.

(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 endorsements.

(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 or from an agent, accept in payment of or in remittance for such checks, cash, bank drafts, transfers of funds or bank credits, or other forms of payment or remittance, acceptable to the collecting Federal Reserve bank. The Federal Reserve bank shall not be liable for the failure of the drawee bank or any agent to pay or remit for such checks, nor for any loss resulting from the acceptance from the drawee bank or any collecting agent, in lieu of cash, of any other form of payment or remittance authorized herein, nor for the nonpayment of, or failure to realize upon, any bank draft or other medium of payment or remittance which may be accepted from the drawee bank or any collecting agent.

(4) Checks received by a Federal Reserve bank which are payable in its own district will ordinarily be forwarded or presented direct to the banks on which they are drawn, and such banks will be required to remit or pay therefor at par in such one or more of the forms of payment or remittance authorized under paragraph (3) hereof as may be acceptable to the Federal Reserve bank.

(5) Checks received by a Federal Reserve bank payable in other districts will ordinarily be forwarded for collection to the Federal Reserve bank of the district in which such checks are payable; provided, however, that, where arrangements can be made satisfactory to the collecting bank or agent and to the Federal Reserve bank of the district in which such checks are payable, any such checks may be forwarded for collection direct to the bank on which they are drawn or at which they are payable, or may be forwarded for collection to another agent with authority to present them for payment direct to the bank on which they are drawn or at which they are payable. All such checks shall be handled subject to all the terms and conditions of this regulation.

(6) With respect to any check sent direct by a member or non-member clearing bank in one district to a Federal Reserve bank in another

district, the relationships and the rights and liabilities existing between the member or nonmember clearing bank, the Federal Reserve bank of its district and the Federal Reserve bank to which the check is sent will be the same, and the relevant provisions of this regulation will apply, as though the member or nonmember clearing bank had sent such check to the Federal Reserve bank of its district with its endorsement and guaranty of prior endorsements and such Federal Reserve bank had sent the check to the other Federal Reserve bank with its endorsement and guaranty of prior endorsements.

(7) Bank drafts received by a Federal Reserve bank in payment of or in remittance for checks handled under the terms of this regulation shall 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 reserve balance, clearing account, deposit account, or other funds of the drawee bank or of any bank to which such checks have been sent for collection, in the possession of the Federal Reserve bank. No draft, authorization to charge, or other order, upon any reserve balance, clearing account, deposit account, or other funds of a paying, remitting, or collecting bank in the possession of a Federal Reserve bank, issued for the purpose of settling items handled under the terms of this regulation will be paid, acted upon, or honored after receipt by such Federal Reserve bank of notice of suspension or closing of such paying, remitting, or collecting bank.

#### SECTION 6. 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 its check clearing and collection operations. Such rules and regulations shall be set forth by the Federal Reserve banks in their letters of instruction to their member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any check to such Federal Reserve bank for collection or to any other Federal Reserve bank for the account of such Federal Reserve bank for collection.