

**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON**



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 15, 1939.

Dear Sir:

With its letter of May 3, 1939, R-456, the Board submitted a draft of a proposed regulation governing the collection of noncash items. This draft of the regulation has been revised in some particulars in the light of suggestions received from the Federal Reserve banks pursuant to the Board's letter and there is enclosed herewith a copy of the revised form of the regulation. The regulation in the form enclosed will be adopted by the Board when drafts of the noncash collection circulars of the Federal Reserve banks have been received and reviewed so that an effective date for the revised regulation may be fixed. The new regulation will be known as Regulation G.

In this connection it is noted that the report of the Standing Committee on Collections dated April 22, 1939, states (Paragraph 60) that: "Revised uniform paragraphs for circulars to be issued by the Federal Reserve banks, relating to the collection of noncash items, will be submitted by the Standing Committee on Collections when the text of the new regulation has been determined." It is understood, accordingly, that the Standing Committee on Collections will give further consideration to this subject before changes are made in the noncash collection circulars of the Federal Reserve banks designed to bring them into conformity with the new regulation. Copies of letters which the Board addressed yesterday and today to the Chairman of the Presidents' Conference regarding this matter are enclosed herewith for your information.

You are also advised that the Board of Governors has approved recommendation No. 18 contained in the report of the Standing Committee on Collections dated January 14, 1939, and concurred in by the Presidents' Conference "that each Federal Reserve bank, whenever possible, should endorse or stamp all municipal warrants handled by it as noncash items in such manner as to indicate the agency status of the Federal Reserve bank, or should attach to such municipal warrants notices indicating such status". Action upon this particular recommendation has heretofore been deferred pending consideration of the new regulation governing the collection of noncash items.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

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REGULATION G

Effective , 1939.

COLLECTION OF NONCASH ITEMS

AUTHORITY FOR REGULATION

This regulation is based upon and issued pursuant to the provisions of subsection (i) of section 11, the first paragraph of section 13, and the 14th and 15th paragraphs of section 16, and other relevant provisions of the Federal Reserve Act.

SECTION 1. DEFINITION OF NONCASH ITEMS

As used in this regulation, the term "noncash items" means any items of the following classes when payable within the continental United States:

(1) Maturing notes, acceptances, bankers' acceptances, certificates of deposit, bills of exchange, and drafts with or without securities, bills of lading or other documents attached;

(2) Drafts and orders on savings deposits with pass books attached;

(3) Checks, drafts and other cash items which have previously been dishonored or on which special advice of payment or dishonor is required;¹

(4) Maturing bonds and coupons (other than obligations of the United States and its agencies which are redeemed by Federal Reserve banks as fiscal agents);

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1. Any check, draft, or other item which is normally handled as a cash item will not be handled as a noncash item unless special conditions require that this be done, and the Federal Reserve bank will decide whether such special conditions exist.

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(5) State and municipal warrants, including both orders to pay addressed to officers of States and political subdivisions thereof and any special or general obligations of States and political subdivisions thereof;

(6) All other evidences of indebtedness and orders to pay, except checks and bank drafts handled under the provisions of Regulation J¹ and checks and bank drafts drawn on or payable by a nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve bank of the district in which such nonmember bank is located.²

SECTION 2. RECEIPT OF ITEMS FOR COLLECTION

Each Federal Reserve bank may receive for collection non-cash items 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, subject to the terms and conditions of this regulation.

SECTION 3. TERMS OF COLLECTION

(1) Agreement of sending bank. - Each member and nonmember clearing bank which sends noncash items to any Federal Reserve bank for collection shall by such action be deemed: (a) to authorize the Federal Reserve banks to handle such items subject to the terms and conditions of this regulation; (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

1. (See Footnote 1 on preceding page.)

2. Checks and bank drafts drawn on or payable by a nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve bank of the district in which such nonmember bank is located, and which may not be received under the terms of Regulation J, likewise may not be received as noncash items under the terms of this regulation.

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Reserve bank within the scope of its authority for the purpose of collecting such noncash items; and (d) to guarantee all prior endorsements on such items whether or not a specific guaranty is incorporated in an endorsement of the sending bank.

(2) Federal Reserve bank as agent. - A Federal Reserve bank will act only as agent of the bank from which it receives such noncash items and will assume no liability except for its own negligence and its guaranty of prior endorsements.

(3) Presentation of items by Federal Reserve bank. - A Federal Reserve bank may present such noncash items with any accompanying documents for payment direct to the person, firm or corporation on which they are drawn or by or through which they are payable or collectible, or may present them for payment or forward them for collection direct to the bank on which they are drawn, at which they are payable, or through which they are payable or collectible; or, in its discretion, may forward them to another agent with similar authority to present them for payment or forward them for collection. The bank upon which any such noncash item may be drawn, or at which the same may be payable or through which the same may be payable or collectible shall be deemed to be a proper agent for collection within the meaning of this regulation.

(4) Items payable in other districts. - Noncash items received by a Federal Reserve bank payable in other districts will be forwarded for collection to the Federal Reserve bank of the district in which such items are payable; except that, when in the judgment of the Federal Reserve bank the size or character of the items or other special circumstances justify such action, any such items, in the discretion of the Federal Reserve bank, may be forwarded for collection direct to the bank on which they are drawn, at which they are payable, or through which they are payable or collectible, or may be forwarded for collection to another agent with authority to present them for payment direct to the person, firm, or corporation on which they are drawn or by or through which they are payable or collectible or to present them for payment direct to the bank on which they are drawn, at which they are payable or through which they are payable or collectible.

(5) Forms of payment accepted by Federal Reserve bank. - A Federal Reserve bank may, in its discretion and at its option, accept from any bank in payment of or from any collecting agent in remittance for such noncash items, cash, checks, 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 any bank or any agent to collect, or to pay, or to remit for, such noncash items, nor for any loss resulting from the acceptance from any bank or any 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 any bank or any collecting agent.

(6) Collection of remittances for noncash items. -

Bank drafts and other forms of payment or remittance received by a Federal Reserve bank in payment of or in remittance for noncash items handled under the terms of this regulation will be collected, at the option of the Federal Reserve bank, either under the terms and conditions of this regulation or under the terms and conditions of Regulation J of the Board of Governors of the Federal Reserve System.

(7) Suspension or closing of paying or remitting 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.

(8) Items sent direct to Federal Reserve bank in another district. - With respect to any noncash item sent direct by a member or nonmember 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 noncash item 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 noncash item to the Federal Reserve bank of its district with its endorsement and guaranty of prior endorsements and such Federal Reserve bank had sent the noncash item to the other Federal Reserve bank with its endorsement and guaranty of prior endorsements.

SECTION 4. OTHER RULES

Each Federal Reserve bank may also promulgate rules not inconsistent with the terms of the law or of this regulation, governing the details of its noncash collection operations. Such rules may be set forth by each Federal Reserve bank in circulars to its member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any noncash item to such Federal Reserve bank for collection or to any other Federal Reserve bank for the account of such Federal Reserve bank for collection.

C O P Y

September 14, 1939.

Mr. G. L. Harrison,
Chairman of the Presidents' Conference,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Chairman:

With its letter of May 3, 1939, R-456, the Board submitted to the Federal Reserve banks a draft of a proposed regulation governing the collection of noncash items. This draft of the regulation has been revised in some particulars in the light of suggestions received from the Federal Reserve banks, and the revised draft is now before the Board for action.

In this connection it is noted that the report of the Standing Committee on Collections dated April 22, 1939, states (Paragraph 60) that: "Revised uniform paragraphs for circulars to be issued by the Federal Reserve banks, relating to the collection of noncash items, will be submitted by the Standing Committee on Collections when the text of the new regulation has been determined." It is understood, accordingly, that the Standing Committee on Collections will give consideration to the uniform paragraphs of the noncash collection circulars before changes are made in the circulars designed to bring them into conformity with the new regulation.

The Board feels that it is desirable that arrangements be made for consideration at the same time of the non-uniform provisions of the noncash collection circulars, with a view to producing as much uniformity as practicable. It will be appreciated, therefore, if you will bring this matter to the attention of the Presidents' Conference on September 18, 1939, in order that it may be referred to an appropriate committee for consideration as soon as practicable after action by the Board on the text of the new regulation.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

C O P Y

September 15, 1939.

Mr. G. L. Harrison,
Chairman of the Presidents' Conference,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Chairman:

Referring to the letter which the Board addressed to you on yesterday regarding the regulation governing the collection of noncash items, there is enclosed herewith for your information a letter which the Board is today addressing to the Federal Reserve banks with respect to this subject.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Enclosure.