

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

**Circular No. 77-30
February 24, 1977**

REVISION OF BULLETIN 11

**TO ALL BANKS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:**

Enclosed is a revised copy of our Bulletin 11, "Instructions to Collecting Banks and Paying Banks," effective March 1, 1977. This revision to the cash item operating bulletin covers the procedure for making reserve account adjustments relating to cash letters received by paying banks on a day which is a holiday for the Federal Reserve office maintaining the settlement account.

If you have any questions or comments about this revision, please contact J. A. Clymer, Assistant Vice President, at Ext. 6337, or the officer in charge of the Checks Department at the El Paso, Houston, or San Antonio Branch. Additional copies of Bulletin 11 will be furnished upon request to the Secretary's Office of this Bank (Ext. 6267) .

Sincerely yours ,

Robert H. Boykin

First Vice President

Enclosure

Banks and others are encouraged to use the following toll-free incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

BULLETIN 11

Instructions to Collecting and Paying Banks



FEDERAL RESERVE BANK OF DALLAS

SCOPE

This bulletin sets forth the instructions to be followed in the handling of, and payment or remittance for, checks and other cash items contained in cash letters received from this Bank.

TABLE OF CONTENTS

Section 1, DEFINITIONS AND GENERAL PROVISIONS

- 1.00 Collection contract
- 1.05 Authority
- 1.10 Definitions, reference to Regulation J
- 1.15 Reference to Bulletin 1
- 1.20 Use of term "wire"
- 1.25 Applicability of this bulletin

Section 2, PRESENTMENT FOR PAYMENT

Section 3, ENDORSEMENTS

- 3.00 Cash item without endorsement
- 3.05 Warranties

Section 4, PAYMENT FOR CASH LETTERS

- 4.00 Time of payment
- 4.05 Form of payment
- 4.10 Adjustment for reserve computation
- 4.15 Collecting banks
- 4.20 Differences and adjustments
- 4.25 Late claims for error adjustments

Section 5, RETURN ITEMS

- 5.00 Recovery
- 5.05 Time for return by collecting banks

- 5.10 Warranty of collecting banks
- 5.15 Warranty of paying banks
- 5.20 Return without entry
- 5.25 Reason for nonpayment on item
- 5.30 Federal Reserve responsibility
- 5.35 Maintenance of records
- 5.40 Provisional credits

Section 6, UNIFORM INSTRUCTIONS REGARDING PROTEST AND ADVICE OF NONPAYMENT

- 6.00 General
- 6.05 United States obligations
- 6.10 Responsibility of paying bank
- 6.15 Responsibility of this Bank

Section 7, PROCEDURES

- 7.00 Standardization, sorting, routing, and mechanized processing
- 7.05 Reference to Bulletin 8
- 7.10 Cash letters received in mutilated condition
- 7.15 Photographic copies

SUPPLEMENT A, Return of Cash Items

Section 1, DEFINITIONS AND GENERAL PROVISIONS

This bulletin is directed to the member banks of the Eleventh Federal Reserve District and others concerned:

1.00 Collection contract

Attention of collecting banks, paying banks, and nonbank payors is directed to section 210.3 of Regulation J which provides that the provisions of that regulation and of the operating bulletins of this Bank are binding upon each collecting bank, paying bank, and nonbank payor to which this Bank or any subsequent collecting bank, presents, sends, or forwards a cash item received by us.

1.05 Authority

This bulletin, our Bulletin 8, and our time schedules (Bulletin 10) are issued pursuant to the provisions of sections 4, 13, 14(e), and 16 of the Act and the provisions of related statutes and in conformity with the provisions of Regulation J.

1.10 Definitions, reference to Regulation J

All terms defined in Regulation J and used herein shall have the meanings stated in that regulation.¹

1.15 Reference to Bulletin 1

Definitions and rules of construction applicable to this bulletin are found in our Bulletin 1, General Provisions, and are incorporated herein by reference.

1.20 Use of term "wire"

For the purposes of this bulletin, the term "wire" includes telephone, telegraph, cable, or other form of electronic telecommunications.

1.25 Applicability of this bulletin

The provisions of this bulletin are applicable to any state, or any county, district, political subdivision, or municipality thereof to which we present direct, as cash items, any bills, notes, and warrants issued by such state, county, political subdivision, or municipality and payable in this district. Each such issuer to which cash

items are presented is treated as a paying bank for all purposes of Regulation J and operating bulletins issued in conformity therewith.

Section 2, PRESENTMENT FOR PAYMENT

As contemplated by section 210.7 of Regulation J, any cash item:

- (1) May be presented for payment by us or a subsequent collecting bank;
- (2) May be sent by us or subsequent collecting bank for presentment and payment; or
- (3) May be forwarded by us to a subsequent collecting bank with authority to present it for payment or to send it for presentment and payment.

Section 3, ENDORSEMENTS

3.00 Cash item without endorsement

If a cash item is received by a Federal Reserve Bank from a sender without the endorsement thereon of such sender, we may:

- (1) Present, send, or forward the item as if it bore such endorsement;
- (2) Place on the item the name of such sender and the date of its receipt by us; or
- (3) Return the item to the sender for proper endorsement by the sender.

3.05 Warranties

This Bank makes the warranties set out in section 210.6(b) of Regulation J by presenting, sending, or forwarding a cash item pursuant to section 3 of our Bulletin 8. These warranties arise whether or not such item bears the endorsement of this Bank.

Section 4, PAYMENT FOR CASH LETTERS

4.00 Time of payment

Payment or remittance for our cash letter must be made by a paying bank for all accompanying cash items which shall not have been returned by said bank prior to the close of its banking day

¹For the purposes of this bulletin as well as for the purposes of Regulation J, the Virgin Islands and Puerto Rico shall be deemed to be in or of the Second Federal Reserve District; Guam and American Samoa shall be deemed to be in or of the Twelfth Federal Reserve District.

on which such cash items are received.² Such payment or remittance³ shall be made at par and in the manner hereafter provided:

- (1) Debit to an account on our books;
- (2) Cash; or
- (3) In our discretion, any other form of payment or remittance.

The proceeds of any such payment or remittance in any form herein stated shall be available to us not later than the close of the banking day for us on which such items were so received by the paying bank. If the banking day on which such items are received by a paying bank is not a banking day for us, any payment or remittance made hereunder shall be effected on the next banking day of both this Bank and such paying bank next following the day of receipt of such item.

4.05 Form of payment

This Bank may require the paying bank to which it has presented or sent any cash item to pay or remit therefor in cash, but payment may be made, in our discretion by any of the following methods which is in a form acceptable to us:

- (1) Authorization to charge the account on our books of a member or nonmember clearing bank;
- (2) Cash letter agreement plan (automatic charge; see our Bulletin 12); or
- (3) Other forms where special arrangements have been made.

4.10 Adjustment for reserve computation

If payment or remittance for an item is effected by means of a debit to an account on the books of this or another Federal Reserve Bank on a banking day for such Federal Reserve Bank following the banking day of receipt of the item by

the paying bank because such day of receipt was not a banking day for such Federal Reserve Bank, this or such other Federal Reserve Bank may make appropriate adjustments as of such day of receipt (unless such day is a Saturday) for purposes of computation of reserves under Regulation D of the Board of Governors of the Federal Reserve System.

4.15 Collecting banks

A subsequent collecting bank (other than a Federal Reserve Bank) to which the paying bank has paid or remitted for a cash item as herein provided shall pay or remit the proceeds to the Federal Reserve Bank which forwarded the item to it in such fashion that the proceeds thereof will be available to such Federal Reserve Bank not later than the close of the banking day, for such Federal Reserve Bank, on which the proceeds were received by such subsequent collecting bank.

4.20 Differences and adjustments

Unless a paying bank has otherwise agreed with this Bank, when a paying bank pays or remits for our cash letter in an amount not in agreement with the total of the cash letter because the accompanying cash items do not prove to the amount of the cash letter, a complete explanation of the difference should be furnished on our appropriate form. Paying banks are requested to refrain from reporting adjustments of \$1.00 or less.

4.25 Late claims for error adjustments

We will send to member banks and other depositors maintaining an account on our books statements of account, which may be supported by advices, with respect to entries in such an account made by us in accordance with the

²A cash item received by a paying bank shall be deemed to have been received by the bank on its next banking day if the item is received under one of the following circumstances:

- (1) On a day other than a banking day for it, or
- (2) On a banking day for it, but
 - (a) After its regular banking hours, or
 - (b) After a "cut-off hour" established by it in accordance with applicable state law, or
 - (c) During afternoon or evening periods when it is open for limited functions only.

³This Bank will charge against a member paying bank's reserve account the amounts of cash letters received from or through this Bank by such paying bank, in the absence of any arrangement to provide for payments and remittances in some other manner and in the absence of instructions to the contrary with respect to any specific cash letter.

provisions of Regulation J and our operating bulletins. If, within one calendar year from the date of an entry in such an account, such a depositor fails to advise us in writing of its objection to such an entry, the depositor, and any sender, collecting bank, or paying bank using the account maintained by the depositor which has handled the item to which the entry relates, shall be deemed to have approved the entry and the statement of account shall be deemed finally adjusted. The foregoing shall not relieve such a depositor from the duty of exercising due diligence to examine statements of account sent to it and of notifying us immediately upon discovery of any error, nor shall it apply to claims based upon the breach of a warranty in respect of an item to which an entry relates by a Federal Reserve Bank.

Section 5, RETURN ITEMS

5.00 Recovery

If a paying bank returns to us an unpaid cash item in accordance with the provisions of section 210.12 of Regulation J,⁴ it may recover any payment or remittance theretofore made by it for such item by requesting a credit therefor to an account on our books; and paying banks are urged to follow this procedure to the extent practicable. However, any such paying bank may return any such unpaid item to us for refund.

5.05 Time for return by collecting banks

Any collecting bank which receives an unpaid cash item from a paying bank for return to us is hereby directed to forward the return item to us before midnight of its next banking day following the banking day of its receipt of the return item, or as such time may be extended by operation of section 210.14 of Regulation J.

5.10 Warranty of collecting banks

A collecting bank which takes or receives a credit or obtains a refund for the amount of any remittance made by it in respect of a cash item forwarded to it by us and returned to us by it thereby:

(1) Warrants to us and to the sender of the item and all prior parties thereon that its return of the unpaid item to us was timely; and

(2) Agrees to indemnify us for any loss or expense sustained (including but not limited to attorneys' fees and expense of litigation) resulting from its breach of such warranty.

5.15 Warranty of paying banks

In accordance with section 210.12(b) of Regulation J, each paying bank which takes or receives credit or obtains a refund in respect of a cash item received by it from or through us, warrants to us, to any subsequent collecting bank, and to the sender and all prior parties that it took all action necessary to entitle it to recover such payment within the times limited therefor.

5.20 Return without entry

A paying bank or a collecting bank may return to us without entry a cash item which the paying bank or collecting bank did not return on time, with the request that we ask our sender to make refund therefor, in which event we shall make refund to the paying bank or collecting bank and charge our sender only if the latter specifically authorizes us to do so.

5.25 Reason for nonpayment on item

Each cash item returned unpaid should bear a notation clearly indicating the reason for nonpayment.

5.30 Federal Reserve responsibility

If we are once furnished with a cash item accompanied by a statement, signed by an authorized representative of a sender (other than a Federal Reserve Bank), that, upon the information and belief of such sender, the paying bank did not take all action necessary to entitle it to recover its payment or remittance for such cash item within the times limited therefor by the provisions of Regulation J, thereby causing loss to the sender, we shall, on the basis of such statement, charge the amount of the item to the account maintained or used by, and forward the item to, the collecting bank or paying bank to which the item was originally presented, sent or forwarded by us and credit the account on our books of the sender (or Federal Reserve Bank furnishing such item and statement) with that amount; provided, however, that such credit to the sender shall be

⁴Section 210.12 of Regulation J is set forth in Supplement A to this bulletin.

revoked if for any reason we cannot obtain the amount of such credit from the paying bank, and such credit to the sender shall be revoked if we subsequently receive not later than fifteen (15) banking days after we forwarded the item to the collecting bank or paying bank as provided in this paragraph, the same cash item accompanied by a statement, signed by an authorized representative of the paying bank, that the paying bank took all action necessary to entitle it to recover its payment or remittance within the times limited therefor by the provisions of Regulation J, and the paying bank (or collecting bank furnishing such item and statement) will be credited accordingly. No Federal Reserve Bank shall have any responsibility for determining whether the paying bank took all action necessary to entitle it to recover such payment or remittance or whether the return of the item to it by a collecting bank was timely.

5.35 Maintenance of records

For its own protection each paying and collecting bank returning cash items to us for any reason should maintain adequate records to permit the reproduction or tracing of any items lost or destroyed in transit.

5.40 Provisional credits

If a paying bank or a collecting bank makes, in accordance with applicable state law, a direct return to the depository bank of an unpaid cash item which it has received from or through us or any other Federal Reserve Bank, any provisional credit for the item:

- (1) Between such paying bank or collecting bank and this Bank or any other Federal Reserve Bank;
- (2) Between this Bank or any other Federal Reserve Bank and the sender; and
- (3) Between this Bank and any other Federal Reserve Bank

shall become and remain final.

Section 6, UNIFORM INSTRUCTIONS REGARDING PROTEST AND ADVICE OF NONPAYMENT

6.00 General

Except as provided in section 6.05 hereof, all

paying banks and collecting banks must receive, handle, and forward cash items in accordance with the following uniform instructions regarding protest and wire advice of nonpayment; and any contrary or special instructions noted on cash letters or otherwise transmitted with cash items are to be disregarded:

(1) **PROTEST** any dishonored item of \$2,500 or over:

(a) Which appears on its face to have been drawn at a place which is not within any state,⁵ unless it bears on its face the ABA no-protest symbol of a Federal Reserve Bank or of a preceding bank endorser, or

(b) Which bears on its face the legend, "PROTEST REQUIRED," of a Federal Reserve Bank or of a preceding bank endorser.

(2) **DO NOT PROTEST:**

(a) Any item of less than \$2,500, or

(b) Any item of \$2,500 or over unless it is protestable under subparagraph (1).

(3) **WIRE ADVICE** of nonpayment of any item of \$2,500 or over, unless it has not been paid because of a missing, irregular, or unsatisfactory endorsement or unless it bears on its face the legend, "DO NOT WIRE NONPAYMENT," of a Federal Reserve Bank or a preceding bank endorser. Include in the advice of nonpayment, the amount of the item, the reason for nonpayment, the date of our cash letter, the name of the drawer or maker, and the names of all endorsers preceding the Federal Reserve Bank or their ABA transit numbers, if any. Wire advices of nonpayment should be furnished in a form similar to that which is used in the following specimen:

Returning \$2,513.24 insufficient funds yours
18th maker John Doe endorsed 37-2 17th
88-4185 16th and Richard Roe.

(4) **DO NOT WIRE ADVICE** of nonpayment of:

(a) Any item less than \$2,500; or

(b) Any item of \$2,500 or over unless such advice is required by subparagraph (3).

6.05 United States obligations

DO NOT PROTEST AND DO NOT WIRE ADVICE of nonpayment of any cash item, regard-

⁵The term "state" is defined in section 210.2(n) of Regulation J to mean any state of the United States, the District of Columbia, or Puerto Rico, or any territory, possession, or dependency of the United States.

less of amount, endorsed by the United States Treasury, or endorsed for credit to the United States Treasury, or bearing on its face or in an endorsement the legend, "This check is in payment of an obligation to the United States and must be paid at par. N.P. Do not wire nonpayment." or words of similar import.

6.10 Responsibility of paying bank

The paying bank shall be responsible for making or providing for any protest of a cash item protestable under the provisions of this bulletin and for giving any wire advice of nonpayment required by the provisions hereof, except as may be otherwise provided by the rules or practices of any clearing house through which the item was presented or by agreement between this Bank and the paying bank.

6.15 Responsibility of this Bank

This Bank shall have no responsibility for determining whether any other bank responsible therefor has (a) made or provided for the protest of any cash item protestable hereunder, or (b) given any wire advice of nonpayment required hereunder.

Section 7, PROCEDURES

7.00 Standardization, sorting, routing and mechanized processing

To facilitate the sorting, routing, and mechanized processing of cash items, and thereby promote earlier presentment and return of unpaid items, paying banks are urged:

(1) In conformity with the ABA Magnetic Ink Character Recognition Program, to preprint the routing symbol and the suffix of the transit number on all cash items in magnetic ink in E-13B type in the manner prescribed, and at the location assigned, by the ABA.

(2) To clearly imprint the appropriate transit number-routing symbol in fractional form in the upper right corner of all cash items payable by or through such paying banks, preferably in Gothic type, and the face of which measures at least 8 points vertically or 1/9 of an inch from the top to the bottom of the individual characters.

(3) To conform cash items to the standards prescribed by the ABA, including a minimum width of 2³/₄ inches, a maximum width of 3²/₃ inches, a minimum length of 6 inches, and a maximum

length of 8³/₄ inches, and to restrict cash items to a single thickness of card or paper.

(4) Cash items returned by collecting banks and paying banks should not bear on the back of the endorsement, paid or other identifying stamp of the paying bank unless that stamp has been cancelled. This Bank or another Reserve Bank which has handled an item, shall not assume any responsibility to the sender, to any other owner or holder of the item, or to any other person, for any delay resulting from action taken by a Reserve Bank in returning an item on the basis of the uncanceled endorsement, paid or other identifying stamp of the paying bank on the back of the item.

7.05 Reference to Bulletin 8

The attention of paying banks and collecting banks is called to our Bulletin 8, to the effect that:

(1) This Bank may present, send, or forward any cash item, in accordance with section 210.6 of Regulation J, on the basis of:

(a) Any ABA transit number or routing symbol appearing thereon at the time of its receipt by us, whether inscribed by magnetic ink or by any other means, and whether or not such transit number or routing symbol is consistent with each other form of designation of the paying bank (or nonbank payor) then appearing thereon; or

(b) Any other form of designation of the paying bank (or nonbank payor) then appearing thereon, whether or not consistent with any ABA transit number or routing symbol then appearing thereon; and

(2) If, in our judgment, the processing of any cash item by us requires the inscription thereon in magnetic ink, or otherwise, of the ABA transit number, the routing symbol, or both, of the paying bank (or nonbank payor) or requires the inscription thereon in magnetic ink of the amount of such item, we may so inscribe the item and present, send, or forward it accordingly; and the sender of such item shall be deemed to assume the risk of loss resulting from delay caused by the act of inscribing such amount or such number, symbol, or both.

7.10 Cash letters received in mutilated condition

In the event that our cash letter is received in a mutilated condition, please telephone this Bank before attempting to function any portion there-

of. Under certain conditions when the cash letter is returned intact, tracing and identification of mutilated or destroyed cash items is expedited.

7.15 Photographic copies

In the event we receive, as a cash item, a properly prepared photographic copy of a lost or destroyed item which was eligible for handling as a cash item, which copy bears a current endorsement of the sender and the following legend, or one of equivalent effect, signed by or in behalf of the sender:

"This is a photographic facsimile of the original check which was endorsed by the undersigned and reported lost, stolen, or destroyed while in the regular course of bank collection. All prior and any missing endorsements and the validity of this facsimile are hereby guaranteed, and upon payment hereof in lieu of the original check, the undersigned will hold each collecting bank and the payor bank harmless from any loss suffered, provided the original check is unpaid and payment is stopped thereon."

we will present or send the copy as a cash item to the paying bank (or nonbank payor) subject to all the rules as to payment or remittance for, and return of, cash items; and we urge paying banks (and nonbank payors) to accept such photocopies for handling as cash items. However, if a paying bank (or nonbank payor) declines to handle the copy as a cash item but is willing to handle it as a noncash item, we will charge back to the sender the amount of the copy and will present or send the copy to the paying bank (or nonbank payor) as a noncash item under the terms of our current bulletin relating to the collection of noncash items; or, if such paying bank (or nonbank payor) refuses to handle the copy, we will charge back the amount of the copy and return the copy to the sender.

Supplement A

RETURN OF CASH ITEMS

Section 210.12 of Regulation J, captioned "Return of Cash Items," provides as follows:

"(a) A paying bank that receives a cash item from or through a Federal Reserve Bank, otherwise than for immediate payment over the

counter, and that pays or remits for such item as provided in § 210.9(a) of this Part shall have the right to recover any payment or remittance so made if, before it has finally paid the item, it returns the item before midnight of its banking day next following the banking day of receipt or takes such other action to recover such payment or remittance within such time and by such means as may be provided by applicable State law: *Provided*, that the foregoing provisions shall not extend, nor shall the time herein provided for return be extended by, the time for return of unpaid items fixed by the rules and practices of any clearing house through which the item was presented or fixed by the provisions of any special collection agreement pursuant to which it was presented.

(b) Any paying bank which takes or receives a credit or obtains a refund for the amount of any payment or remittance made by it in respect of a cash item received by it from or through a Federal Reserve Bank shall be deemed (1) to warrant to such Federal Reserve Bank, to a subsequent collecting bank, and to the sender and all prior parties that it took all action necessary to entitle it to recover such payment or remittance within the time or times limited therefor by the provisions of this part, by the applicable rules and practices of any clearing house through which the item was presented, by the applicable provisions of any special collection agreement pursuant to which it was presented, and, except as a longer time may be afforded by the provisions of this part, by applicable State law; and (2) to agree to indemnify such Federal Reserve Bank for any loss or expense sustained (including but not limited to attorneys' fees and expenses of litigation) resulting from its action in giving such credit or making such refund, or in making any charge to, or obtaining any refund from, the sender. No Federal Reserve Bank shall have any responsibility to such paying bank or any subsequent collecting bank or to the sender of the item or any other prior party thereon for determining whether the action hereinabove referred to was timely."