

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

**Circular No. 79-147
August 29, 1979**

REVISION TO BULLETIN 11

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

Reference is made to our Circular No. 79-130, dated August 7, 1979, announcing the implementation of a Nationwide Fine Sort Program on August 15, 1979.

In this connection, enclosed are revised pages to Bulletin 11, "Instructions to Collecting and Paying Banks," which indicate that Reserve Banks handle endpoint-sorted cash letters without endorsing the items and that banks returning items not bearing our endorsement warrant those items as being received from this Bank. Paragraph 3.05 has been revised to include the handling of endpoint-sorted cash letters. Section 5 has been revised by the addition of a paragraph entitled "Items Without our Endorsement" and numbered 5.20 with subsequent paragraphs being renumbered.

Member banks and others that maintain Regulations Binders should file the revised pages of Bulletin 11 in their binders. The corresponding pages of the bulletin should be removed and destroyed.

Questions concerning these revisions should be directed to Larry J. Reck, Assistant Vice President at the Head Office, Ext. 6337; Robert W. Schultz, Assistant Vice President at the El Paso Branch, (915) 544-4730; Vernon L. Bartee, Assistant Vice President at the Houston Branch, (713) 659-4433; or Thomas H. Robertson, Assistant Vice President at the San Antonio Branch, (512) 224-2141.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosures

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (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.

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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. Reserve Banks handle end-point-sorted cash letters received from senders without endorsing the items in the cash letters. Collecting banks and paying banks should maintain records to enable them to identify the source of receipt of such items. In addition, Treasury Regulations (31 Code of Federal Regulations, Part 103) require that banks maintain legible records of many items. These regulations apply whether or not the item is capable of being photocopied.

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 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

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.

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 Items without our endorsement

A collecting bank or paying bank sending to this Bank a return item that does not bear our endorsement thereby warrants to us and to the sender of the item and all prior parties that the item was presented, sent or forwarded by us to the collecting or paying bank and that the collecting or paying bank will provide source of receipt information on request.

5.25 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.

5.30 First and second returns

If the cash item is being dishonored and returned for the first time, the paying bank is urged to stamp the following symbol on the upper right hand area of the face of the item: ★. If the cash item is being dishonored and returned for the second time, the paying bank shall invalidate the MICR routing number on the face of the item in such a manner that the item will no longer qualify for handling by high-speed automated check processing equipment. No Federal Reserve Bank shall have any responsibility for handling as a cash item an item whose MICR routing number has not been invalidated as required.

5.35 Reason for nonpayment on item

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

5.40 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,

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

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 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 officer 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.

5.45 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.

5.50 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.