



FEDERAL RESERVE BANK  
OF DALLAS

TONY J. SALVAGGIO  
FIRST VICE PRESIDENT

November 19, 1993

DALLAS, TEXAS  
75265-5906

Notice 93-114

**TO:** The Chief Operating Officer of  
each financial institution in the  
Eleventh Federal Reserve District

**SUBJECT**

Operating Circular 8  
(Collection of Cash Items)

**DETAILS**

The Federal Reserve Bank of Dallas has revised Operating Circular 8 (Collection of Cash Items). The changes became effective October 14, 1993.

Paragraph 7E was worded incorrectly in our June 1993 version of Operating Circular 8 and has, therefore, been corrected. Paragraphs 17-19, 27-31, 34, and 42 have been amended to reflect the Board of Governors' adoption of new posting procedures for purposes of measuring daylight overdrafts.

**ENCLOSURE**

Enclosed is Operating Circular 8. Please file it in your Operating Circulars (Bulletins) binder and discard the old version.

**MORE INFORMATION**

For more information regarding collection of cash items, please contact Terry Campbell, (214) 922-6603, at the Dallas Office; Eloise Guinn, (915) 521-8201, at the El Paso Branch; Luke Richards, (713) 652-1544, at the Houston Branch; or Herb Barbee, (210) 978-1402, at the San Antonio Branch.

For additional copies of this Bank's notice or Operating Circular 8, please contact the Public Affairs Department at (214) 922-5254.

Sincerely,

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# Operating Circular

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F e d e r a l   R e s e r v e   B a n k   o f   D a l l a s

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8

**Collection of  
Cash Items**

# Scope

Operating Circular 8 contains the terms and conditions under which this Bank will handle cash items for collection and gives other instructions regarding the handling, return, and adjustment of cash items.

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## GENERAL

1. Subpart A of Regulation J of the Board of Governors of the Federal Reserve System, Subpart C of Regulation CC of the Board, this Operating Circular, and our time schedules apply to the handling of all cash items that we accept for forward collection, all returned checks that we accept for return, and any form of payment that we receive for such items. This Operating Circular also contains instructions to paying and collecting banks for handling and paying cash items received from us and instructions to returning and depository banks for handling and paying returned checks received from us. This Operating Circular is issued pursuant to Sections 4, 13, 14(e), and 16 of the Federal Reserve Act, the Expedited Funds Availability Act, and related statutes and in conformity with Regulations J and CC. It is binding on each party interested in an item we handle.

1A. This Operating Circular, however, is not binding on a bank outside a state to which a subsequent collecting bank presents or sends a cash item payable outside a state (“foreign cash item”).<sup>1</sup> For example, paragraphs 23 through 28 regarding off-premise presentment and payment for cash letters, paragraph 30 regarding differences with a paying bank, paragraph 34 regarding return by a paying bank, and paragraph 38 regarding identification of a returned check are not binding on a paying bank outside a state with respect to a foreign cash item. In addition, the late-return procedure in paragraphs 48–50, the rules on notice of nonpayment in paragraphs 51–63, and the handling of photocopies as cash items in paragraphs 69–73 do not apply to and are not available for foreign cash items. A Reserve Bank may further modify the application of this Operating Circular to foreign cash items in an agreement with a subsequent collecting bank.

2. Each Reserve Bank issues an operating circular substantially similar to this one. When we send a cash item or a returned check to another Federal Reserve Bank, that Reserve Bank handles the item subject to its Operating Circular

and time schedules. We give credit for the item in accordance with our time schedules.

3. The definitions of terms set forth or incorporated in Regulation J, as well as terms defined in Regulation CC, apply in this Operating Circular, except as otherwise provided. “Bank” means a depository institution as defined in Section 19 of the Federal Reserve Act. “Item” applies to a cash item and a returned check. “Cash item” excludes a returned check, and “returned check” refers to a cash item and a check, as defined in Regulation CC, that is returned by a paying bank. The terms “prior” and “subsequent” with respect to a bank are used in relation to our handling of an item. For example, a subsequent collecting bank is an institution that handles a cash item after we handle it. Many terms used in this Operating Circular have specialized meanings that have developed through law, custom, and commercial usage. Unless otherwise stated, all references to “this Bank” are to our Dallas Office and our El Paso, Houston, and San Antonio Branches.

4. This Operating Circular applies to any state or political subdivision of a state to which we present direct as cash items any bills, notes, or warrants that are issued by the state or political subdivision and that are payable in the Eleventh Federal Reserve District. Each such issuer is treated as a paying bank, and each day on which the issuer is open for the regular conduct of its affairs or the accommodation of the public is treated as a “banking day” for the issuer.

## ITEMS THAT WE HANDLE AS CASH ITEMS

5. A sender may send the following items to us for handling as cash items, unless otherwise provided in this Operating Circular:
- A. checks payable in a state (as defined in Section 210.2 of Regulation J), including postdated checks, except checks that cannot be collected at par;
  - B. government checks, postal money orders, redeemed savings bonds, and food coupons;<sup>2</sup>

<sup>1</sup> Under Section 210.2 of Regulation J, “state” means a state of the United States, the District of Columbia, Puerto Rico, or a territory, possession, or dependency of the United States.

<sup>2</sup> The provisions that govern the collection of government checks, postal money orders, and redeemed savings bonds are in Appendixes 1, 2, and 3 of this circular. Provisions governing the collection of food coupons are in Operating Circular 5.

- C. other demand items, collectible at par in funds acceptable to the Reserve Bank of the Federal Reserve District in which the items are payable, that we are willing to accept as cash items;<sup>3</sup> and
  - D. demand items payable in Canada, collectible at par in funds acceptable to the last collecting Reserve Bank, that we are willing to accept as cash items.
6. When we accept an instrument for credit to our own account, the account of another Reserve Bank, or any account on our books, we handle the instrument as a cash item if it qualifies as a cash item, even though it is sent to us by a sender other than one defined as a sender in Section 210.2 of Regulation J.

### ITEMS THAT WE DO NOT HANDLE AS CASH ITEMS

7. A sender should not send to us an item eligible for handling as a cash item under paragraph 5
- A. if a passbook, certificate, or other document is attached to the item;
  - B. if special instructions, including a request for special advice of payment or dishonor, accompany the item;
  - C. if the item consists of more than a single thickness of paper, except as provided in paragraphs 69–70 and 76 regarding photocopies, but we do handle as a cash item a mutilated, erroneously encoded, or other cash item contained in a carrier that qualifies for handling by high-speed check processing equipment;
  - D. if, except as provided in paragraphs 69–70 and 76 regarding photocopies, the item has not been preprinted or postencoded—in accordance with the American National Standard “Specifications for Placement and Location of MICR Printing, X9.13” (September 1983)—before we receive it (1) with the routing number<sup>4</sup> of the paying bank (or nonbank payor) and (2) except as provided in our time schedules, with the dollar amount of the item. We handle such an item as a cash item, however, when we judge that special circumstances justify such handling or when the item is a foreign item;
  - E. if the item does not set forth on its face the name of the paying bank and a city and state address of the bank that is located (1) in the same Reserve Bank check processing region as the address associated with the routing number in magnetic ink on the item and (2) in a Reserve Bank availability zone that provides the same availability as (or slower availability than) the address associated with the magnetic ink routing number; or
  - F. if, except as provided in paragraphs 69–70 and 76 regarding photocopies, the item does not (1) bear the routing number of the paying bank in fractional form in the upper right corner in at least 8-point Gothic type or (2) conform to the dimension standards of the American National Standard “Specifications for Placement and Location of MICR Printing, X9.13” (September 1983)—between 2¾ inches and 3⅔ inches in width and between 6 inches and 8¾ inches in length. We handle such an item as a cash item, however, when we judge that special circumstances justify such handling or when the item is a foreign item.
8. A sender should not send to us as a cash item an item that has been dishonored two or more times. We reserve the right to return an item if it has been dishonored once or if we judge that special conditions require that it not be handled as a cash item. We reserve the right to return an item payable by, at, or through a bank that has been reported closed.
9. Under Section 4-204(1) of the Uniform Commercial Code, a collecting bank must send items by reasonably prompt methods. Accord-

<sup>3</sup> The Virgin Islands and Puerto Rico are deemed to be in the Second District; Guam, American Samoa, and the Northern Mariana Islands are deemed to be in the Twelfth District (Regulation J, note 1).

<sup>4</sup> “Routing number” means a number authorized by the routing number policy of the American Bankers Association.

ingly, we discourage indirect routing of cash items. A sender should not send to us, or to another Reserve Bank for our account, an item that is payable in another District and that bears the indorsement of a bank located in another District if it is evident that the item has been routed indirectly. A sender should not send to us an item payable by, at, or through an office of the sender.

10. If an item that we do not handle as a cash item is sent to us in a cash letter, we reserve the right, in our discretion, to charge the item back and return it to the sender. We do not have any responsibility for delay in handling as a cash item an instrument that should not have been sent to us as a cash item. We also reserve the right to return and charge back a cash letter that does not conform to the sorting requirements of this Operating Circular and our time schedules.

10A. This Bank gives credit, subject to final payment, for coupons from obligations of the United States and its agencies and instrumentalities as fiscal agent of the obligor. Senders may send coupons from obligations of the International Bank for Reconstruction and Development or the Inter-American Development Bank directly to the Federal Reserve Bank of New York for payment.

10B. This Bank does not generally collect noncash items. Senders in this District may send bonds, debentures, coupons, and similar securities to the Federal Reserve Bank of Atlanta, Jacksonville Branch, for collection as noncash items after making arrangements with that Reserve Bank for settlement. That Reserve Bank has agreed to handle securities sent by senders in this District, subject to its Operating Circular governing the collection of securities. The payment of securities sent by a Federal Reserve Bank to a bank or nonbank payor in this District may be governed by agreement with this Bank. If a sender in this District desires that we handle a noncash item (other than a security), the sender must first obtain the prior approval of the Manager of the Securities Department and execute an appropriate agreement with us.

## **PREPARATION OF CASH LETTERS AND RETURN LETTERS**

11. All cash items and returned checks sent to us may be listed by amount, without further description, in tape listings accompanying cash letters or return letters. All letters and tape

listings should be dated and identified with the sender's (or paying or returning bank's) name and nine-digit routing number, if any.

12. Each sender (or paying or returning bank) should keep records permitting it to identify the depositor or indorser on a cash item or returned check so that the bank can take appropriate action if the item is lost or destroyed. We do not usually keep copies or descriptions of items. We do not keep any records of items in endpoint-sorted cash letters or return letters that we handle without our indorsement. We have no responsibility for describing a lost or destroyed item that we charge back to a bank or for maintaining insurance coverage or obtaining from another party reimbursement for a sender's (or paying or returning bank's) costs or other loss, except as provided in Appendix 1 concerning government checks.

13. We require that cash items be sorted separately from returned checks, except that a bank that agrees to accept from us intermingled sorts of cash items and returned checks sent to it or its agent may send to us, and direct to other Reserve Banks accepting intermingling, intermingled sorts of cash items and returned checks in accordance with our time schedules. We reserve the right to require separate sorts of government checks, postal money orders, redeemed savings bonds, and food coupons. We reserve the right to require banks located in the same city, town, metropolitan area, or similar area to sort, list, and package cash items payable in the same area according to the office of the paying bank where the items are payable. We reserve the right to require separate sorts of foreign cash items that are payable in U.S. funds and those that are payable in other than U.S. funds. Our time schedules contain other instructions for sorting and listing items.

### ***Indorsements***

14. All cash items and returned checks sent to us should be indorsed in accordance with the requirements of Section 229.35 and Appendix D of Regulation CC. If we receive a cash item without the sender's indorsement or a returned check without the returning bank's indorsement, we may (a) present or send the item as if it bore the indorsement, (b) place on the item the missing indorsement and the date we received it, or (c) return the item for proper indorsement. We handle an endpoint-sorted cash letter and return letter without indorsing the items in the

letter. We make the warranties stated in Section 210.6(b) of Regulation J by presenting or sending a cash item (and the warranties stated in Section 229.34 of Regulation CC by sending a returned check), whether or not the item bears our indorsement.

#### *Responsibility for Back of Check*

15. Guidelines concerning the back of checks are the following:

- A. A bank issuing a check drawn on us is responsible for ensuring that the condition of the back of the check when issued does not adversely affect the ability of a bank to indorse the check legibly in accordance with Section 229.35 and Appendix D of Regulation CC. The issuing bank agrees to indemnify us for any loss or expense we incur (including attorneys' fees and expenses of litigation) as a result of the condition of the back of the check when issued.
- B. We reserve the right to refuse to accept a deposit of a check if, in our judgment, the condition of the back of the check at the time of the deposit adversely affects our or another bank's ability to indorse the check legibly in accordance with Section 229.35 and Appendix D of Regulation CC. If we do accept the check, the depositor is responsible for the condition of the back of the check and agrees to indemnify us for any loss or expense we incur (including attorneys' fees and expenses of litigation) as a result of the condition of the back of the check at the time of deposit.

#### *Direct Sending to Other Federal Reserve Offices*

16. A sender (or a paying or returning bank) that maintains or uses an account with us and that has cash items (or returned checks) payable in another District, or in the territory of any office of this Bank, may send the items directly to the Federal Reserve office of that District or territory under procedures we prescribe. Under Sections 210.4(b) and 210.12(f) of Regulation J, items sent direct are deemed to have been handled by us. A sender or bank that, by arrangement, delivers items payable in another District to us, or to another designated location for consolidated shipment, should give us prior notice of any deviation from that arrangement.

## TIME SCHEDULES AND AVAILABILITY OF CREDIT

17. We give immediate credit or deferred credit for all items that we accept as cash items or returned checks in accordance with our published time schedules and our procedures on intraday posting, as provided in paragraph 19. For letters containing items not sorted as to credit availability, we may defer credit for the longest period prescribed in our time schedules for any item enclosed.

18. Because, in many instances, our time schedules do not show the actual time required for collection or return, our advices cannot be considered advices of actual payment on the dates we make credit available. In addition, in some instances, credit shown in an account balance monitor during a day does not reflect credit available for purposes of the Board's policy on daylight overdraft measurement. In all instances, credit is subject to charge-back by us in the event we do not receive payment in actually and finally collected funds. We reserve the right to refuse to permit a bank to withdraw or otherwise use any credit (immediate or deferred) for a period that is reasonable under the circumstances, including a reasonable time for us to receive notice that another bank seeks to recover from us under Section 229.35(b) of Regulation CC.

19. We enter credit at full face value, in the reserve account or other appropriate account, for a cash item or returned check, as follows:

#### *Immediate Credit*

19A. Immediate credit qualifies as reserves for purposes of Regulation D and is available for use by the bank at one float-weighted posting time per time zone for most cash items unless the sender chooses a unique set of fractions for each of four time zones. Credit for separate sorts of government checks, postal money orders, items drawn on this Bank, and redeemed savings bonds is available at 8:30 a.m. Eastern Time if received by 12:01 a.m. or later (local time) or at 5:00 p.m. Eastern Time if received by 4:00 p.m. Eastern Time. Credit for food coupons and nonmachineable cash items is available after the close of Fedwire.

#### *Deferred Credit*

19B. The amount entered as deferred credit does

not qualify as reserves for purposes of Regulation D and is not available for use by the bank until the day specified in our time schedules and the posting time referred to in paragraph 19A.

#### *Items Payable Outside a State (Foreign Items)*

19C. For a foreign cash item payable in U.S. funds, we give deferred credit for the full face value of the item in U.S. funds. For a foreign cash item payable in other than U.S. funds, we give deferred credit in U.S. funds, based on the exchange rate applicable on the date we deliver the item to the subsequent collecting bank. In handling a foreign cash item, we act solely as agent for collection. The sender bears all risk of loss arising from exchange rate fluctuation during the processing of a foreign cash item. Our agreements with subsequent collecting banks governing the collection of foreign items are available on request. Senders should recognize that credit is provisional and that the time for return of foreign items may vary under foreign law.

#### ROUTING NUMBERS; RECORDS

20. We may present or send a cash item, under Section 210.6(a)(2) of Regulation J, on the basis of any routing number or other designation of a paying bank appearing on the item when we receive it. We are not responsible for any delay resulting from our acting on a designation of a paying bank, whether inscribed by magnetic ink or by other means, even if the designation is inconsistent with another designation of the paying bank on the item.

21. If, in our judgment, processing of an unencoded or misencoded cash item requires it, we may inscribe on the item, in magnetic ink or otherwise, (a) the amount of the item or (b) the routing number of the paying bank (or nonbank payor). The sender assumes the risk of loss resulting from any delay caused by our inscribing the item and presenting or sending it accordingly, except in the case of an item that is not amount-encoded and is classified as a cash item in our time schedules.

22. In addition to the record-keeping provisions of this Operating Circular (see paragraphs 12 and 75), U.S. Treasury regulations (Title 31 of *Code of Federal Regulations*, Part 103) require that banks keep legible records of many items. These regulations apply whether or not the item is capable of being photocopied.

#### DELIVERY AND PRESENTMENT

23. We do not, by this Operating Circular or otherwise, agree to present, or cause presentment of, a cash item earlier than is required by the Uniform Commercial Code. We have no responsibility for giving notice to a sender of anticipated delays in presentment or return of cash items unless the delay is expected to involve at least 10 paying banks and to last at least three banking days.

24. A paying bank may request that delivery of cash items be made at an off-premises location in the same Federal Reserve office territory where the paying bank is located. For arrangements involving delivery of cash letters to a processing organization, execution of a Letter of Authority to Deliver Cash Letters and/or Return Letters, Form TR-411, is required (see Exhibit 1). A paying bank may also pick up cash items at this Bank by arrangement with us. The paying bank is considered to receive a cash item when it is delivered as requested or made available for pickup as arranged.

25. A paying bank may request that delivery of cash items be made at an off-premises location in a different Federal Reserve office territory from where the paying bank is located, as provided in this paragraph. For arrangements involving delivery of cash letters to a processing organization, execution of the agreement in Form TR-411 (Exhibit 1) is required.

- A. In appropriate cases, we will attempt to arrange public transportation, at the paying bank's expense, that ensures delivery to the out-of-territory location in the ordinary course on the same banking day that delivery would be made within the territory where the paying bank is located ("same-day delivery").
- B. If we arrange same-day delivery, the paying bank is considered to receive the cash items (1) when the items are delivered to the out-of-territory location as requested or (2) when the items are shipped if the scheduled transportation is canceled or rescheduled and we do not arrange alternative same-day delivery.
- C. If we do not arrange same-day delivery, the paying bank may arrange for transportation of the items to the out-of-

territory location, and the bank is considered to receive the cash items when we make the items available for shipment as requested.

26. We may commingle items delivered to or picked up by the paying bank or a bank's agent on behalf of that bank with items delivered to or picked up by that agent on behalf of other banks, unless otherwise requested by the paying bank.

## SETTLEMENT FOR CASH LETTERS

27. A paying bank must settle in accordance with Section 210.9(a) of Regulation J for all cash items that it has received from us and not returned in accordance with Regulation J.<sup>5</sup> Settlement shall be made at par and

- A. by a debit to an account on our books;
- B. by cash; or
- C. in our discretion, by any other form of payment.

Regulation J refers to the Reserve Banks' Operating Circulars for the earliest settlement time, which is 11:00 a.m. Eastern Time. Accordingly, the proceeds of any settlement must be available to us by the later of

- D. the next clock hour that is at least one hour after the paying bank receives the item (but no later than 3:00 p.m. local time); or
- E. 11:00 a.m. Eastern Time.

If presentment to the paying bank is delayed beyond the normal presentment time for any reason and the paying bank desires that a charge to its account be deferred, it should notify us immediately. If the paying bank's banking day of receipt is not a banking day for us, settlement shall be made on our next banking day in accordance with Section 210.9(a)(4) of Regulation J; we may make appropriate adjustments as

of the day of receipt (unless that day is a Saturday or Sunday) for purposes of computing reserves under the Board's Regulation D. The proceeds of any settlement must be available to us on such next banking day by the later of

- F. the next clock hour that is at least one hour after the paying bank ordinarily would receive the item (but no later than 3:00 p.m. local time); or
- G. 11:00 a.m. Eastern Time.

We charge against a paying bank's reserve or clearing account the amounts of cash letters that the paying bank receives directly or indirectly from us, unless it makes other arrangements for payment or issues instructions to the contrary with respect to a specific cash letter. Our terms for payment for cash items are contained in Operating Circular 12 of this Bank.

28. As provided in Section 210.9(a)(3) of Regulation J, a paying bank that closes voluntarily on a day that is a banking day for us shall, with respect to a cash item made available to the paying bank on that day, either settle for the amount of the item on that day or compensate us for the value of the float associated with the item and settle for the amount of the item on the next day that is a banking day for both the paying bank and us. The proceeds of any settlement must be available to us on

- A. either the day the cash item is made available by the later of
  - (1) the next clock hour that is at least one hour after the paying bank ordinarily would have received the item (but no later than 3:00 p.m. local time); or
  - (2) 11:00 a.m. Eastern Time;
- B. or the next day that is a banking day for both the paying bank and us by the later of

<sup>5</sup> A paying bank is deemed to receive a cash item on its next banking day if it receives the item

- (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;
  - (b) after a cutoff hour established by it in accordance with the Uniform Commercial Code; or
  - (c) during afternoon or evening periods when it is open for limited functions only.

- (1) the next clock hour that is at least one hour after the paying bank ordinarily would receive the item (but no later than 3:00 p.m. local time); or
- (2) 11:00 a.m. Eastern Time.

A list of standard Reserve Bank holidays, as well as other holidays not considered voluntary (“mandatory nonstandard holidays”), is distributed annually by this Bank. We may charge the account on our books maintained or used by the paying bank for the amount of the item on the day we make the item available, unless the paying bank elects to compensate us for the float associated with the item. The paying bank may elect to eliminate float by “as-of adjustment” or pay for the float by explicit charge, as we prescribe with respect to interterritory float. An item is available to the paying bank if we deliver it or are prepared to deliver it as if the paying bank were open. A paying bank that pays for an item made available to it, or compensates for the float associated with the item, is not considered to receive the item until the bank’s next banking day, such as for purposes of determining the deadline for return of the item. We do not charge a paying bank on a mandatory nonstandard holiday for items made available on that day.

29. A subsequent collecting bank (other than a Reserve Bank) that receives settlement for a cash item shall make the proceeds available to us not later than the close of our banking day on the day the subsequent collecting bank receives the proceeds.

***Differences and Adjustments***

30. A paying or depositary bank may settle for our cash letter or return letter in an amount different from the total of the letter only if the paying bank returns an item by the time set forth in Section 210.9(a) of Regulation J, and notifies us of the return, or the paying or depositary bank notifies us of an error in the letter on the adjustment form we provide. Debits and credits for errors in entries relating to cash items, and other credit adjustments, in the amount of \$1 million or more are made at 11:00 a.m. Eastern Time and hourly thereafter as they are determined. Debits and credits for smaller adjustments are made after the close of Fedwire. We request that banks not report adjustments of \$1 or less. We adjust for an amount encoding error on a cash item or a qualified returned check (a) upon

receipt from a sender or a bank, within six calendar months from the date of the entry relating to the item, of a request and a photocopy of the front and back of the item showing the error and (b) subject to receipt from the bank or the sender of the item, as the case may be, of the amount of the requested credit or refund.

31. We provide a statement of account to each bank maintaining an account on our books. An account holder must promptly advise us in writing of an objection to an entry in our statement of its account. An account holder that fails to advise us of its objection within one calendar year of the date of the entry (and any bank that has used the account and has handled the cash item or returned check to which the entry relates) is deemed to have approved the entry, and the statement of account is deemed finally adjusted. Reserve Banks generally keep records for only one year. This paragraph does not relieve an account holder from the duty of using due diligence in examining statements of account sent to it and of notifying us immediately on discovery of an error. Further, this paragraph does not relieve a Reserve Bank from liability for breach of warranty on an item to which an entry relates. Section 229.38(g) of Regulation CC requires that any action for a violation of Regulation CC, including an action for breach of warranty under Section 229.34, be brought within one year after the date of the occurrence of the violation. Section 210.6(c) of Regulation J requires that action on a claim against a Reserve Bank for failure to exercise ordinary care or act in good faith under Regulation J, except as otherwise provided in Section 229.38(g) of Regulation CC, be commenced within two years after the claim accrues.

***Missent Items***

32. If we send to a bank, on the understanding that it is the paying bank, a cash item that does not contain either the routing number or the name of the bank as paying bank and the bank determines not to pay the item, the bank shall send the item back to us promptly on a without-entry basis, with a request for credit or refund and a notation clearly indicating the reason for nonpayment, and we will promptly grant the credit or refund. The bank shall not send the item to us in a cash letter or return letter.

33. A check, as defined in Section 229.2(k) of Regulation CC, that contains the routing number of a bank is considered to be payable by the

bank, even if the check does not contain the name of the bank or contains the name of another bank. Therefore, a paying bank shall handle a cash item on which it is identified only by routing number as a cash item drawn on it. The paying bank is encouraged to invalidate any erroneous use of its MICR (magnetic ink character recognition) routing number on the face of the item before return by obliterating only the start and stop symbols of the routing number (and by canceling any erroneous fractional routing number) to prevent redelivery to the paying bank.

## RETURNED CHECKS

34. A paying bank may return a cash item received from us and for which it has previously made settlement only if it returns the item within the deadline of Section 210.12(a) of Regulation J, Section 229.30(c) of Regulation CC, and the Uniform Commercial Code. A paying bank may return to us a cash item received from us without making payment to us if it returns the item before the time set forth in Section 210.9(a) of Regulation J. If the paying bank receives a settlement from a returning bank for a cash item received from us and returned by it but for which it has not previously made payment to us, it shall immediately remit the settlement to us. A bank may return to us a foreign cash item received from us; and we, any subsequent returning bank, and the depository bank shall handle the item as a returned check under Regulation CC, Regulation J, and this Operating Circular.

35. A paying or returning bank may send to us a returned check not handled by us for forward collection only if it sends the returned check within the deadline of Regulation CC and the Uniform Commercial Code. A bank shall not intermingle returned checks with cash items except as provided in paragraph 13.

36. A paying or returning bank that sends a returned check to us and receives settlement for the returned check (a) warrants to us and subsequent parties that its return of the check was within the deadline of Regulations CC and J and the Uniform Commercial Code and (b) agrees to indemnify us for any loss or expense we incur (including attorneys' fees and expenses of litigation) as a result of its breach of this warranty. The paying or returning bank also makes the other warranties and agreements set forth in Section 210.12 of Regulation J and in Section 229.34 of Regulation CC.

37. We do not, by this Operating Circular or otherwise, agree to handle a returned check more expeditiously than is required by Section 229.31 of Regulation CC or agree to convert a returned check into a qualified returned check. We have no responsibility for giving notice of anticipated delays in return of returned checks unless the delay is expected to involve at least 10 depository banks and to last at least three banking days.

37A. A paying or returning bank that is unable to identify the depository bank on a returned check may send the check to us, as provided in Section 229.30(b) or Section 229.31(b) of Regulation CC. The check must not be sent as a qualified returned check.

### *Preparation of Returned Checks*

38. A paying bank shall clearly write or stamp on the face of a returned check that it is a returned check and the reason for nonpayment as provided in Section 229.30(d) of Regulation CC. We may handle the returned check even if it does not indicate the reason for nonpayment. We reserve the right to send back to the paying or returning bank a returned check if the depository bank has been reported closed. Paragraphs 11–19 and 30–31 apply to the preparation and sending of, and the availability of credit and adjustments for, returned checks.

### *Qualified Returned Checks; Identification of Depository Bank*

39. We may rely on

- A. the amount of a qualified returned check encoded in magnetic ink,
- B. the identification of an item as a qualified returned check by a "2" properly encoded in magnetic ink in position 44 of the MICR line,
- C. the identification of the depository bank by nine-digit routing number in magnetic ink on a qualified returned check, and
- D. the identification of the depository bank by nine-digit routing number on the face of a returned check received in a separate sort of items requiring such identification,

whether or not the amount or identification is consistent with any other information on the returned check. We reserve the right to test whether an item represented to be a qualified returned check is properly machine-readable and, also, to handle a nonmachinable item as a raw return or to return it to our transferor. The paying or returning bank from which we receive the check agrees to indemnify us for any loss or expense we incur (including attorneys' fees and expenses of litigation) as a result of our reliance on such amount or identification or as a result of any delay in handling an item represented to be a qualified returned check that is not able to be processed on our automated check processing equipment or that does not pass our testing procedures.

### *Delivery to Depository Bank*

40. We deliver returned checks to a depository bank at the same location and subject to the same terms under which we deliver cash items payable by the bank, except as follows. If we do not usually deliver cash items to the bank for payment, we deliver returned checks to the depository bank in accordance with Section 229.32(a) of Regulation CC, which may include delivery by mail. If a depository bank requests delivery of returned checks at a location other than the location to which we deliver cash items or other than by mail, we will deliver returned checks to a location on an existing Reserve Bank courier route in appropriate cases or will arrange delivery as otherwise agreed with the depository bank. A depository bank may also arrange to pick up returned checks at offices of this Reserve Bank.

41. We deliver returned checks to a depository bank or its agent separately sorted from cash items, unless we and the depository bank agree otherwise in accordance with paragraph 13.

### *Payment for Returned Checks*

42. A depository bank must pay in accordance with Section 229.32(b) of Regulation CC for a returned check that it has received from us.<sup>6</sup> If the depository bank's banking day of receipt is not a banking day for us, we may make appro-

appropriate adjustments as of the day of receipt (unless that day is a Saturday or Sunday) for purposes of computing reserves under the Board's Regulation D. A depository bank that closes voluntarily on a day that is a banking day for us shall pay for a returned check or compensate us for the float as provided with respect to cash items in paragraph 28 of this Operating Circular. The proceeds of payment must be available to us in accordance with Sections 210.9(a) and 210.12(g) of Regulation J by the times set forth in paragraphs 27 and 28 of this Operating Circular, even if the returned checks are received by the depository bank at a location and time different from the location and time of receipt of cash items for forward collection.

43. A depository bank shall pay us for a returned check in the same manner it pays us for a cash item received for payment. If we do not usually send cash items to the depository bank for payment, the depository bank shall pay

- A. by a debit to an account on our books;
- B. by cash;
- C. by wire transfer; or
- D. in our discretion, by any other form of payment.

44. A subsequent returning bank (other than a Reserve Bank) that has paid for a returned check shall make the proceeds available to us not later than the close of our banking day on the day the subsequent returning bank receives the proceeds and shall pay in the same manner as for cash items received for payment.

45. If we send a returned check or notice of nonpayment to a bank, on the understanding that it is the depository bank, and the bank determines that it is not the depository bank but the bank is able to identify the depository bank, we encourage the bank to send the returned check or notice promptly to the depository bank. If the bank is unable to identify the depository bank, the bank shall promptly send the check or notice back to us on a without-entry basis, with a request for credit or refund, and we will

<sup>6</sup> A depository bank is deemed to receive a returned check on its next banking day if it receives the item

(1) on a day other than a banking day for it or  
(2) on a banking day for it but after its regular banking hours.

promptly grant the credit or refund. The bank shall not send the returned check to us in a cash letter or return letter.

### BREACH OF WARRANTY—CASH ITEMS AND RETURNED CHECKS

46. A bank that has received a cash item or returned check from us and that had paid us for the item may request, on a without-entry basis, a credit or refund based on a claim of breach of warranty, including a claim by a paying bank of forged indorsement with affidavit of forgery. We make refund to the requesting bank and charge the bank from which we received the cash item or returned check only if the latter bank specifically authorizes us to do so. The bank shall not send the item to us in a cash letter or return letter.

### BANK'S LIABILITY FOR JUDGMENT AND EXPENSES

47. Under Sections 210.5 and 210.12 of Regulation J, we may charge the account maintained or used by the bank from which we have received a cash item or returned check for the amount of any judgment and attorneys' fees and expenses incurred by us in certain actions against us or another Reserve Bank (or in certain actions where defense is tendered to us or another Reserve Bank), including actions alleging breach of warranty, if we have tendered defense of the action to the bank. We assume no responsibility for defending the action if the bank does not accept tender of the defense.

### DISPUTED RETURN PROCEDURE

48. If a depository bank that settles for a returned check in the amount of \$100 or more believes that the paying bank has returned the check late and breached its warranty under Section 229.34(a)(1) of Regulation CC, the bank may dispute the return by furnishing us (or its Reserve Bank) with the returned check and a signed statement that the bank believes the paying bank did not return the check within the paying bank's deadline under the Uniform Commercial Code, Regulation J, or Section 229.30(c) of Regulation CC. This procedure may not be used unless the item was handled by this Bank or another Reserve Bank either for forward collection as a cash item or for return as a returned check. The procedure may be used only once and only with respect to the first time the check was returned by the paying bank. The

statement must be on a form provided by this Bank and must be sent by the bank within two calendar months after the date the returned check was received by the depository bank. Upon receipt of the statement, we credit the amount of the returned check to the bank's account (or to the account of the forwarding Reserve Bank). We also charge that amount to the account of, and send the returned check and the statement to, the paying bank or the paying bank's Reserve Bank.

49. We will revoke the credit given to the disputing bank and recredit the paying bank or other Reserve Bank

- A. if, for any reason, we cannot obtain the amount of the credit from the paying bank or other Reserve Bank; or
- B. if we (or another Reserve Bank) receive from the paying bank—within 20 banking days, of the Reserve Bank, after we (or the other Reserve Bank) sent the check and the bank's statement to the paying bank—the returned check and a statement, on a form provided by us,
  - (1) that is signed by an officer of the paying bank;
  - (2) that says the paying bank returned the check within its deadline under the Uniform Commercial Code, Regulation J, or Section 229.30(c) of Regulation CC; and
  - (3) that shows the banking day of receipt and the date of return of the check by the paying bank and explains any difference in dates exceeding one banking day.

50. In handling disputed return forms, we assume no responsibility for determining whether the paying bank returned a check within its deadline under the Uniform Commercial Code, Regulation J, or Section 229.30(c) of Regulation CC. A bank may be subject to criminal penalties under federal and/or state law for knowingly making a false statement to influence the action of a Reserve Bank in granting a credit. We undertake to handle forms and make entries under the dispute procedure within a reasonable time after receipt but not within the time frames for handling an item.

## NOTICE OF NONPAYMENT

51. A paying bank that determines to return a returned check in the amount of \$2,500 or more must provide notice of nonpayment to the depository bank under Section 229.33 of Regulation CC. The paying bank must ensure that the notice is received by the depository bank by 4:00 p.m. (local time for the depository bank) on the second business day following the banking day on which the check was presented to the paying bank. If the day on which the paying bank is required to provide notice is not a banking day for the depository bank, the notice must be received by the depository bank on its next banking day. The following days are not considered business or banking days for purposes of the deadline for notice of nonpayment: Saturdays and Sundays, January 1, the third Monday in January, the third Monday in February, the last Monday in May, July 4, the first Monday in September, the second Monday in October, November 11, the fourth Thursday in November, and December 25. If January 1, July 4, November 11, or December 25 falls on a Sunday, the next following Monday also is not considered a business or banking day for this purpose. Additional nonbanking days may be observed by the depository bank.

52. A paying bank may provide notice of nonpayment by any reasonable means, including

- A. return of the returned check to the depository bank;
- B. telephone call or telex or other form of telegraph to the depository bank; or
- C. return of the returned check to us, telephone call to us, or Fedwire to the depository bank, with a request that we forward notice of nonpayment, as provided below.

### *Content of Notice of Nonpayment*

53. Notice of nonpayment must include the following:

- A. name and routing number of the paying bank,
- B. name of the payee(s),
- C. amount of the item,

- D. date of the depository bank's indorsement,
- E. account number of the customer(s) of the depository bank,
- F. branch name or number of the depository bank from its indorsement,
- G. trace number associated with the indorsement of the depository bank, and
- H. reason for nonpayment.

The notice may include other information from the check that may be useful in identifying the check and the customer. A written notice must include the name and routing number of the depository bank from its indorsement. If the paying bank is not sure of a piece of information, it shall include the required information to the extent possible and identify questionable information with question marks. If the paying bank cannot identify the depository bank, it is authorized but not required to give notice to the earliest collecting bank it can identify, indicating that it questions whether the bank is the depository bank.

### *Acceptance of Notice by Depository Bank*

54. The depository bank shall accept notices during its banking day

- A. at the telephone or telegraph number indicated in its indorsement or, if the number is not present or legible, at the general-purpose telephone number or telegraph number of its head office or the branch indicated in the indorsement;
- B. at any other telephone or telegraph number set up by the bank for receipt of notice of nonpayment; and
- C. in the case of written notice,
  - (1) at a location at which presentment of checks for forward collection is requested or
  - (2) (a) at a branch, the head office, or other location consistent with the name and address in the indorsement;
  - (b) if no address appears in its in-

dorsement, at the branch or the head office associated with the routing number of the bank in its indorsement, or

- (c) if no routing number or address appears in its indorsement, at any branch or the head office of the bank.

The depository bank may transfer a telephone call and may use a recording device.

***Provision of Notice by This Bank  
(Physical Item Service)***

55. A paying bank may request us to provide notice of nonpayment on its behalf by signing and delivering to us a letter in the form of Exhibit 3. The request shall apply to all returned checks in the amount of \$2,500 or more for which notice of nonpayment is required, that are returned by the paying bank to us, and that are separately sorted and identified as checks for which notice is desired (“applicable returned checks”). If we receive applicable returned checks by our cutoff hour for physical item notice, as set forth in our time schedules, on a banking day for us, we will provide notice of nonpayment to the depository bank by 4:00 p.m. (local time for the depository bank) that day or on the next banking day if that day is not a banking day for the depository bank. For the paying bank to comply with its obligation under Section 229.33 of Regulation CC, we must receive the returned check no later than our cutoff hour on our second banking day following the banking day of receipt of the check by the paying bank.

56. Upon our acceptance of such a request, beginning on an agreed-on effective date, we will provide notice of nonpayment for applicable returned checks received by our cutoff hour on behalf of the paying bank under the standard of care and measure of damages set forth in Section 210.38 of Regulation CC. Otherwise, we will handle applicable returned checks as provided elsewhere in Regulations CC and J and this Operating Circular. We will provide notice of nonpayment for applicable returned checks received after our cutoff hour for notice of nonpayment as if the checks had been received before our cutoff hour on our next banking day, and we shall have no responsibility for loss caused by the failure of the paying bank to meet our cutoff hour. The paying bank itself should

provide notice of nonpayment to the depository bank if the paying bank learns that we have not received applicable returned checks by our cutoff hours, and it should indicate to the depository bank that the notice may be duplicated by us.

***Telephone Notice to This Bank  
(Telephone Notice Service)***

57. A paying bank may request us to forward to the depository bank notice of nonpayment given by telephone to us by signing and delivering to us a letter in the form of Exhibit 3. The request shall apply to all returned checks for which notice of nonpayment is telephoned to us. If we receive telephone notice by our cutoff hour for telephone notice, as set forth in our time schedules, on a banking day for us, we will forward notice of nonpayment to the depository bank by 4:00 p.m. (local time for the depository bank) that day or on the next banking day if that day is not a banking day for the depository bank. For the paying bank to comply with its obligations under Section 229.33 of Regulation CC, we must receive the notice no later than our cutoff hour on our second banking day following the banking day of receipt of the check by the paying bank.

58. Upon our acceptance of such a request, beginning on an agreed-on effective date, we will forward notice of nonpayment received by our cutoff hour on behalf of the paying bank under the standard of care and measure of damages set forth in Section 229.38 of Regulation CC. We will forward notice of nonpayment received after our cutoff hour as if the telephone notice had been received before our cutoff hour on our next banking day, and we shall have no responsibility for loss caused by the failure of the paying bank to meet our cutoff hour. The paying bank itself should provide notice of nonpayment to the depository bank if the paying bank is unable to meet our cutoff hour.

***Fedwire Notice to Depository Bank  
(Fedwire System Service)***

59. A paying bank may request us to forward to the depository bank notice of nonpayment given by Fedwire in proper format by signing and delivering to us a letter in the form of Exhibit 3. If we receive Fedwire notice by our cutoff hour for Fedwire notice, as set forth in our time schedules, on a banking day for us, we will forward notice of nonpayment to the depository bank by 4:00 p.m. (local time for the depository

bank) that day or on the next banking day if that day is not a banking day for the depository bank. For the paying bank to comply with its obligations under Section 229.33 of Regulation CC, we must receive the notice no later than our cutoff hour on our second banking day following the banking day of receipt of the check by the paying bank. We handle Fedwire notice under the standard of care and measure of damages set forth in Section 229.38 of Regulation CC. We will forward notice of nonpayment received after our cutoff hour as if the Fedwire notice had been received before our cutoff hour on our next banking day, and we shall have no responsibility for loss caused by the failure of the paying bank to meet our cutoff hour. The paying bank itself should provide notice of nonpayment to the depository bank if the paying bank is unable to meet our cutoff hour.

#### *Other Provisions*

60. Notice of nonpayment should not be given for a returned check drawn on the U.S. Treasury, for a U.S. Postal Service money order, or for a check drawn on a state or a unit of general local government that is not payable through or at a bank. Also, notice need not be given for a check deposited in a depository bank that does not maintain transaction accounts.

61. If a paying bank provides, or requests us to forward, a notice and subsequently determines to pay an item, the paying bank should provide to the depository bank a second notice as soon as reasonably possible. The second notice should indicate that it is a second notice canceling a previous notice and should contain all the information in the original notice to enable the depository bank to match the second notice with the original notice.

62. A depository bank that uses an electronic link with us for purposes of wire transfers of funds under Subpart B of 12 C.F.R. Part 210 is deemed to authorize us to provide notice to it by means of that link or another electronic link agreed to by us. We are not responsible for a delay in sending a notice if the delay results from the depository bank's failure to manage its link so as to permit us to send notices to it through the close of Fedwire. We may record telephone calls in connection with a notice of nonpayment.

63. We have no responsibility for giving or correcting a notice of nonpayment if the notice is not properly given by the paying bank except to

the extent provided above with respect to a notice we provide or forward on behalf of the paying bank.

#### **PROTEST**

64. Reserve Banks shall not protest any returned check, whether or not drawn or payable at a place not within a state. Each Reserve Bank and collecting and paying bank shall disregard any special instructions on protest noted on cash letters or otherwise transmitted with a cash item. A sender may instruct a Reserve Bank to provide for protest of a cash item (other than a government check, postal money order, redeemed savings bond, or food coupon) only if the sender sends the item to us for collection and credit as an individual noncash item, with the instructions noted in the letter of transmittal.

#### **CHARGES**

65. Our schedule of charges shows the charges imposed for handling cash items, returned checks, and notices of nonpayment and for related services. We may make the charge to the account maintained or used by the bank requesting the service.

#### **MISSING OR DESTROYED CASH ITEMS AND RETURNED CHECKS**

##### *Mutilated Cash Letters and Return Letters*

66. A bank that receives from us a cash letter or return letter in a mutilated condition should telephone us before attempting to process any part of it. Sometimes, tracing and identification of mutilated or destroyed items can be expedited when the letter is returned to us intact.

##### *Cash Items Discovered Missing or Destroyed*

67. We credit or refund the amount paid for a cash item if a subsequent collecting bank or the paying bank reports that it discovered during initial proving that the item was missing or knows that the item was missing or destroyed in transit to a subsequent collecting bank or the paying bank. We will credit or refund the amount only if we (or a subsequent collecting bank that promptly sends the report to us) receive the report within five banking days (of the reporting bank) from the date of receipt of the cash letter that listed the item.

68. We charge back to the sender the amount of

a cash item (a) that we discover to be missing or (b) that a subsequent collecting bank or paying bank reports to be missing or destroyed, as provided in paragraph 67.

#### *Handling of Photocopies of Cash Items*

69. We handle a correctly prepared photocopy as a cash item through our Adjustments Division if we (or a prior collecting Reserve Bank) receive the photocopy and a copy of the advice of charge-back or request within 20 banking days (of the Reserve Bank) from the day we (or the prior Reserve Bank) charged back the original item or requested the photocopy. The prior Reserve Bank should send the photocopy and advice to us when received.

70. If a cash letter is lost or destroyed in transit to the first processing Reserve Bank, we handle correctly prepared photocopies of the items as cash items in a photocopy cash letter qualified for automated handling if (a) the photocopy cash letter is identified as containing photocopies of items from a lost or destroyed shipment and (b) we (or a prior collecting Reserve Bank) receive the photocopy cash letter within six calendar months after the date of the lost or destroyed cash letter. A sender should not send a photocopy cash letter to us unless the sender has determined, after making good faith inquiries, that a substantial number of the cash items in the lost or destroyed cash letter remain unpaid.

71. We present or send a photocopy as a cash item subject to all the rules as to payment and return of cash items, except for the requirement of notice of nonpayment and as otherwise provided in this paragraph and except as provided for photocopies of returned checks in paragraphs 76–77. A paying bank has the right to return a photocopy through our Adjustments Division within 20 banking days from its banking day of receipt

- A. if the drawer has refused to authorize payment of the photocopy or the paying bank has been unable to contact the drawer, and the paying bank returns the photocopy and a signed statement to that effect; or
- B. if the original cash item was paid and the paying bank returns the photocopy, a copy of the front and back of the paid original cash item, and a signed statement that the original was paid, together

with the name and routing number, if any, of the bank or person from which, and the date on which, the original was received. If the original was received from us, the paying bank should include the date of the cash letter and the amounts of the items listed before and after the original item, the total of the cash letter and the batch or package that contained the original, and the sequence number of the original.

72. A correctly prepared photocopy must be a legible copy of the front and back of the cash item and must bear the sender's current indorsement and the following or an equivalent signed legend:

This is a photocopy of the original check that we indorsed and that was reported missing or destroyed in the regular course of bank collection. We guarantee all prior and any missing indorsement and the validity of this copy. Upon payment of this copy in lieu of the original check, we agree to hold each collecting bank and the payor bank harmless from any loss suffered if payment is stopped on the original check and the original check remains unpaid.

73. We assume no responsibility for determining whether the return of a photocopy is timely; nor do we assume any responsibility for determining whether a report by another bank of a missing or destroyed cash item, a statement regarding the handling of a photocopy, or a photocopy of a cash item is correct. We handle, on a without-entry basis, a report of a missing or destroyed cash item received after the time set forth in paragraph 67. We undertake to handle reports and photocopies and to make entries with respect to missing or destroyed cash items within a reasonable time after receipt but not within the time frames for handling an item.

#### *Receipt of Both Photocopy and Original of Cash Item or Returned Check*

73A. If a paying or depositary bank has paid an original item and subsequently receives from us and pays a photocopy of the item or has paid a photocopy and subsequently receives from us and pays the original item, that bank may send to us, within six months of the date of our charge and on a without-entry basis, the photocopy or the original item, whichever was paid later. The photocopy must be sent with a photocopy of the

front and back of the original item, and the source of receipt information specified in paragraph 71B for both items. The original item must be sent with a photocopy of the paid photocopy, and the source of receipt information specified in paragraph 71B for both items.

***Returned Checks Discovered Missing or Destroyed***

74. We credit or refund the amount charged to a subsequent returning or depository bank for a returned check if that bank reports that it discovered during initial proving that the check was missing or destroyed or knows that the check was missing or destroyed in transit to a subsequent returning bank or depository bank. We will credit or refund the amount only if we (or a subsequent returning bank that promptly sends the report to us) receive the report within five banking days (of the reporting bank) from the date of receipt of the return letter that listed the check.

75. A paying or returning bank (other than a Reserve Bank) that sends a returned check to a Reserve Bank shall retain a photocopy of the returned check. We charge back to the paying or returning bank the amount of a returned check (a) that we discover to be missing or (b) that a subsequent returning or depository bank reports to be missing or destroyed, as provided in paragraph 74.

***Handling of Photocopies of Returned Checks, Notices in Lieu of Returns***

76. We handle as a returned check through our Adjustments Division a legible photocopy of a returned check (front and back) or, if a photocopy is not available to the paying or returning bank, a written notice of nonpayment containing the information specified in paragraph 53. If we charged back the returned check to the paying or returning bank under paragraph 75 or requested the photocopy, we (or a prior returning Reserve Bank) must receive the photocopy or notice and a copy of the advice of charge-back or request within 20 banking days (of the Reserve Bank) from the day we (or the prior Reserve Bank) charged back the returned check or requested the photocopy. The prior Reserve Bank should send the photocopy and advice to us when received. The copy or notice shall clearly state that it is a "Notice in Lieu of Return" and should not contain the legend set forth in paragraph 72. By sending a Notice in Lieu of Return to us for credit, a paying or returning bank warrants that

it has not received credit for the returned check and makes the warranties set forth in Section 229.34 of Regulation CC. The depository bank may return a photocopy through our Adjustments Division within 20 banking days from its banking day of receipt if the original returned check was paid and the depository bank returns a copy of the front and back of the paid original returned check and a signed statement that the original was paid, together with the information required in paragraph 71B.

76A. If a returned check letter is lost or destroyed in transit to the first processing Reserve Bank, we handle legible photocopies or notices of nonpayment, identified as Notices in Lieu of Returns, in a photocopy returned check letter qualified for automated handling if (a) the photocopy returned check letter is identified as containing photocopies or notices of items from a lost or destroyed shipment and (b) we (or a prior returning Reserve Bank) receive the photocopy returned check letter within six calendar months after the date of the lost or destroyed returned check letter. A returning bank should not send a photocopy returned check letter to us unless the bank has determined, after making good faith inquiries, that a substantial number of the returned checks in the lost or destroyed returned check letter have not been returned to the depository bank.

77. We assume no responsibility for determining whether a report by another bank of a missing or destroyed returned check, a statement regarding payment of the original returned check, or a photocopy of a returned check is correct. A photocopy of a returned check shall not be sent to a Reserve Bank for collection as a cash item. We handle, on a without-entry basis, a late report of a missing or destroyed returned check. We undertake to handle reports with respect to missing or destroyed returned checks within a reasonable time after receipt but not within the time frames for handling an item.

**RIGHT TO AMEND**

78. We reserve the right to amend this Operating Circular and any appendix, exhibit, or supplement to it at any time.

## APPENDIX 1

## U.S. GOVERNMENT CHECKS

We handle checks drawn on the U.S. Treasury ("government checks") as cash items under Treasury Department Circular No. 21 (Title 31 of *Code of Federal Regulations*, Part 240). Copies of that circular will be furnished upon request. As to matters that circular does not cover, Regulation J, this Operating Circular, and our time schedules apply.

We give immediate credit, subject to payment in actually and finally collected funds, for government checks as provided in our time schedules. After we handle government checks as fiscal agent of the United States under Treasury requirements, the checks are subject to examination and payment by the Treasury. We may reimburse a sender for its reasonable costs of reconstructing a government check cash letter lost or destroyed in transit between Federal Reserve offices.

Section 210.12 of Regulation J, relating to the return of cash items by paying banks, does not apply to government checks. If the Treasury refuses payment of a government check upon first examination and returns the check, or a photocopy, to us as outlined in Treasury Circular No. 21, we charge back the amount of the check to the sender and credit that amount to the Treasury. We have no responsibility to the sender or another owner or holder for the nonpayment and return by the Treasury of a government check or photocopy. The expeditious return and notice of nonpayment requirements of Regulation CC do not apply to government checks, and the U.S. government is not a paying bank under Regulation CC.

The Treasury Department is generally not required to pay a government check (a) issued on or after October 1, 1989, unless it is negotiated to a financial institution within one year after the date of issue or (b) issued before October 1, 1989, unless it was negotiated to a financial institution no later than October 1, 1990, as provided in Treasury Circular No. 21.

If the Treasury determines that a government check has been paid over a forged or unauthorized indorsement, the Treasury may reclaim the amount of the check from the presenting bank or prior indorser within one year after the date of credit by this Bank, as provided in Treasury Circular No. 21. This period is extended by 180 days if a timely claim is made against the government under 31 U.S.C. 3702. Under 31 U.S.C. 3702, a claim on a government check must be made to the issuing agency within one year after the date of issuance or within one year after October 1, 1989, whichever is later. Under 31 U.S.C. 3712, an action by the government to enforce liability on a forged or unauthorized signature or indorsement on, or a change in, a government check generally must be commenced within one year after presentment of the check. This period is extended by three years if the government gives written notice of a claim one year after presentment of the check.

**APPENDIX 2**  
**POSTAL MONEY ORDERS**

We handle postal money orders (U.S. postal money orders, U.S. international postal money orders, domestic–international postal money orders) as cash items under an agreement between the U.S. Postal Service and the Reserve Banks as depositories and fiscal agents of the United States pursuant to authorization of the Secretary of the Treasury. As to matters that agreement does not cover, Regulation J, this Operating Circular, and our time schedules apply.

We give immediate credit for postal money orders as provided in our time schedules. The credit becomes final between us and the sender when we debit the amount of the money orders against the general account of the U.S. Treasury under symbol numbers assigned by it.

The agreement between the Postal Service and the Reserve Banks provides that (1) the Postal Service may make no claim against or through a Reserve Bank for refund or otherwise with respect to a postal money order debited against the general account of the Treasury (other than a claim based on the negligence of a Reserve Bank); (2) the Postal Service will deal directly with the bank or the party against which the claim is made; and (3) the Reserve Bank will assist the Postal Service in asserting the claim, including making any relevant evidence in its possession available to the Postal Service.

Section 210.12 of Regulation J, relating to the return of cash items by paying banks, does not apply to postal money orders.

## APPENDIX 3

## REDEEMED SAVINGS BONDS AND SAVINGS NOTES

We handle redeemed Series A, B, C, D, E, and EE savings bonds and savings notes ("savings bonds") as cash items under Treasury Department Circular No. 750 (Title 31 of *Code of Federal Regulations*, Part 321). Copies of that circular will be furnished upon request. As to matters that circular does not cover, Regulation J, this Operating Circular, and our time schedules apply.

Savings bonds sent to us as cash items may be sent in mixed cash letters containing checks and other cash items or in separately sorted cash letters containing only redeemed savings bonds. Each cash letter must show the name, address, and nine-digit routing/transit number (ABA number) of the sender, the date of delivery to the Reserve Bank, the total number of pieces transmitted, the value of each bundle in the cash letter, and the total value of the cash letter. The cash letter should be accompanied by a detailed listing of all items.

Each savings bond sent to us must have the redemption value MICR-encoded in the "Amount" field on the face of the savings bond. If savings bonds are sent to us in a mixed cash letter, the routing/transit number 000090007 must be MICR-encoded in the "R/T" field on all pre-1985 savings bonds, which do not contain a preprinted MICR-encoded routing/transit number. If a document carrier or MICR strip is used, the redemption value of the savings bond must be MICR-encoded in the "Amount" field, and 000090007 must be MICR-encoded in the "R/T" field. A savings bond must not be MICR-encoded with any other data in any field other than the auxiliary "On-Us" field and must not be MICR-encoded in the "On-Us" field for any reason.

We give immediate credit, subject to payment and adjustment upon audit by the U.S. Treasury, for savings bonds as provided in our time schedules. After we handle savings bonds, as fiscal agent of the United States, the savings bonds are subject to audit by the Treasury Department. We make an adjustment required by the Treasury Department by notifying the sender and charging back or crediting the amount of the adjustment to the sender. Section 210.12 of Regulation J, relating to the return of cash items by paying banks, does not apply to savings bonds.

Savings bonds submitted in separately sorted cash letters are not subject to cash item deposit and processing charges. We forward paying agent fees received from the Treasury Department to the sender, on a monthly basis, for savings bonds that are submitted in separately sorted cash letters. Payment of these fees is made only by the automated clearinghouse methods under Title 31 of the *Code of Federal Regulations*, Part 210. Inquiries regarding savings bonds submitted in separately sorted cash letters should be directed to Pittsburgh Branch, Federal Reserve Bank of Cleveland, P.O. Box 867, Pittsburgh, Pennsylvania 15230-0867.

Savings bonds submitted in mixed cash letters are subject to cash item deposit and processing charges. No paying agent fees will be paid for savings bonds submitted in mixed cash letters. Inquiries concerning savings bonds submitted in mixed cash letters should be directed to the sender's local Reserve Bank office.

A record of the serial number and amount paid for each savings bond must be retained by the sender. Film records of the front and back of a savings bond must be kept confidential, and prints therefrom may be made only with the permission of the U.S. Bureau of the Public Debt or a Federal Reserve Bank.



**EXHIBIT 2**  
**BANK'S CLAIM OF LATE RETURN<sup>1</sup>**

Date \_\_\_\_\_

To: Return Items Division  
Federal Reserve Bank of Dallas  
\_\_\_\_\_ Branch  
[Local Reserve Bank address]

The returned check ("item") described below and attached hereto is being delivered to you:

1. Amount \$ \_\_\_\_\_ (Must be **\$100** or more.)
2. Dated \_\_\_\_\_
3. Paying bank \_\_\_\_\_
4. Paying bank routing/transit number \_\_\_\_\_
5. Paying bank location \_\_\_\_\_
6. Drawn by (drawer) \_\_\_\_\_
7. Payable to (payee) \_\_\_\_\_
8. Check number \_\_\_\_\_

We sent this item to \_\_\_\_\_, in a cash letter dated \_\_\_\_\_, totaling \$ \_\_\_\_\_, tape total \$ \_\_\_\_\_, listed between items for \$ \_\_\_\_\_ and \$ \_\_\_\_\_.

This item was apparently returned by the paying bank on \_\_\_\_\_.  
We received the item from \_\_\_\_\_.

on \_\_\_\_\_, in a **(CHECK ONE)**  intermingled cash letter  
 return item letter  
dated \_\_\_\_\_, totaling \$ \_\_\_\_\_, tape total \$ \_\_\_\_\_, listed between items for \$ \_\_\_\_\_ and \$ \_\_\_\_\_.

We claim that, according to our records and the data on the item, the paying bank did not take all action necessary to recover its payment within the deadline in Regulations J and CC; and we certify that, as to notice of nonpayment of the item, we received

**(CHECK ONE)**  advice by (method) \_\_\_\_\_ on \_\_\_\_\_.  
 no advice other than the returned check.

This late return caused us to incur financial loss. Please provisionally credit our account and advise.

Bank \_\_\_\_\_  
Officer's Signature \_\_\_\_\_  
Routing/Transit Number \_\_\_\_\_

<sup>1</sup> This form may be submitted only with respect to the first time the item was sent for collection and must be sent in duplicate within two (2) months after the date you received the item as a returned check. In addition, the item must have been collected and/or returned through the Federal Reserve check collection system. Failure to provide all information requested will result in rejection of the claim.

**Knowingly making a false statement to influence the action of a Federal Reserve Bank may subject the signing party to criminal penalties under federal and/or state law.**

**EXHIBIT 3**  
**PAYING BANK'S RESPONSE TO CLAIM OF LATE RETURN<sup>1</sup>**

Date \_\_\_\_\_

To: Return Items Division  
Federal Reserve Bank of Dallas  
\_\_\_\_\_ Branch  
[Local Reserve Bank address]

With your advice of debit dated \_\_\_\_\_, you forwarded to us a claim of late return with respect to a returned check ("item") in the amount of \$\_\_\_\_\_.

We certify that our records indicate that this item was received by us or our processor from \_\_\_\_\_:  
as a cash item on [banking day] \_\_\_\_\_,  
in a cash letter dated \_\_\_\_\_,  
in the amount of \$\_\_\_\_\_, tape total \$\_\_\_\_\_,  
listed between items for \$\_\_\_\_\_ and \$\_\_\_\_\_  
and that the item was returned to \_\_\_\_\_

in our **(CHECK ONE)**  intermingled cash letter dated \_\_\_\_\_,  
 return item letter

in the amount of \$\_\_\_\_\_, tape total \$\_\_\_\_\_,  
listed between items for \$\_\_\_\_\_ and \$\_\_\_\_\_.

Notice of nonpayment of this item was given to \_\_\_\_\_  
by (method) \_\_\_\_\_ on \_\_\_\_\_. (Enter "None" if no notice was given.)

If the number of banking days between the banking day of receipt and the date of the return exceeds one banking day, the explanation for the delay is as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

We took all action necessary to entitle us to recover our payment within the deadline in Regulations J and CC. Please credit our account and advise.

Paying Bank \_\_\_\_\_  
Officer's Signature \_\_\_\_\_  
Routing/Transit Number \_\_\_\_\_

<sup>1</sup> Prepare and submit in duplicate. If you fail to send all the information requested to us within twenty (20) banking days (of the Reserve Bank) after the date we sent this form to you, the provisional credit given the claimant and our debit to your account will become final. In that case, you may be able to recover the amount of the item from the claimant if your return of the item was in fact timely, but you must deal directly with the claimant.

**Knowingly making a false statement to influence the action of a Federal Reserve Bank may subject the signing party to criminal penalties under federal and/or state law.**

**EXHIBIT 4**

**PAYING BANK'S NOTIFICATION AGREEMENT**

[To be typed on paying bank's letterhead]

Date \_\_\_\_\_

To: Federal Reserve Bank of Dallas at

- Dallas       El Paso       Houston       San Antonio

Attention: Return Items Division

We request that, in accordance with your Operating Circular 8, you provide notice of nonpayment for large dollar cash items that we decide not to pay. We elect to provide the information required

- by returning the physical item to you,  
 by telephone notification to you, or  
 by Fedwire System (RESPONSE network).

We authorize you to charge our billing account maintained or used by us on your books and to make other appropriate adjustments with this service.

\_\_\_\_\_  
Name of Paying Bank

\_\_\_\_\_  
Nine-Digit Routing/Transit Number

By: \_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Title