

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 7801  
January 22, 1976 ]

COLLECTION OF CASH ITEMS AND NONCASH ITEMS

To the Member Banks of the Second Federal  
Reserve District, and Others Concerned:

Effective February 2, 1976, all Federal Reserve Banks will adopt new uniform procedures for handling (a) disputed (late) returns of unpaid cash items; (b) reports of errors; (c) drafts payable at a bank; and (d) bank drafts received in payment of noncash items. The procedures are summarized below and are reflected in the enclosed Third Supplements, effective February 2, 1976, to our Operating Circulars No. 4, "Collection of Cash Items," No. 6, "Instructions to Collecting Banks and Paying Banks," and No. 8, "Collection of Noncash Items."

*Disputed Returns of Unpaid Cash Items*

A new procedure will be implemented for handling dishonored checks and other cash items that the paying bank allegedly has not returned or as to which it has not otherwise taken proper action within the time limits prescribed by Regulation J. The procedure is as follows:

1. If a sending bank promptly asserts that it has incurred a financial loss due to the late return of an item, its Federal Reserve office, without examining the circumstances of the case, will, upon receipt of the unpaid item and a letter or other written statement alleging late return of the item and damages to the sender, provisionally credit the sending bank's account and provisionally debit the paying bank's account for the amount of the item.
2. If, within 15 business days after the item has been forwarded to the paying bank, the paying bank asserts that the return of the questioned item was timely and returns the item accompanied by a statement of the details of its timely handling, the Federal Reserve office, again without examining the circumstances of the case, will recredit the paying bank and reverse the credit to the sender's account.
3. If the banks involved wish to dispute the representations made in the statements described above, it is expected that they will correspond directly with each other to resolve the dispute.

When depositing or sending banks are requesting credit for a late return item, we request that the facts of the case be outlined in the form of the attached sample letter, which should be submitted to this Bank in duplicate.

To reflect these changes, paragraph 29 of Operating Circular No. 4 has been amended, a new paragraph 29A has been added to that circular, and paragraph 14 of Operating Circular No. 6 has been amended.

*Reports of errors*

All Federal Reserve offices will adopt uniform procedures covering the handling of errors reported in check shipments or in accounts relating to the collection of noncash items. These procedures, which are designed to improve the timeliness of error reporting and to expedite the resolution of such errors for all banks, are:

1. Written requests for adjustments by paying banks for errors (with the exception of MICR amount encoding errors) will be accepted for *immediate provisional entry* if they are reported within five business days following receipt of the applicable cash letter and are supported with detailed information for our



tracing purposes by completing a form entitled "Errors in Cash Letters" (copies of which are available upon request directed to our Check Adjustment and Return Items Department). If such errors amount to more than \$1,000, please notify us by collect telephone immediately.

2. Written requests for adjustments by paying banks for errors (with the exception of MICR amount encoding errors) will be accepted on a correspondence (without entry) basis (for entry after appropriate research) if reported later than the five-day limit stated above, but within 45 business days after receipt of the applicable cash letter. With respect to requests received after such 45-day period, entry will be made only after approval by the depositing bank.

3. Written requests for adjustments by paying banks arising out of MICR amount encoding errors will be accepted for *immediate provisional entry* if they are reported within 45 business days following receipt of the cash letter. After 45 business days, entry will be made only after approval by the depositing bank.

4. Written requests for adjustments by depositing banks arising out of errors, including MICR amount encoding errors, will be accepted on a correspondence basis (for entry after appropriate research) if they are reported within 45 business days. After 45 business days, entry will be made only after approval by the paying bank.

5. No reports of errors in cash letters, or in accounts relating to the collection of noncash items, by paying or depositing banks will be accepted for any action more than one calendar year after the date of the error.

Attached for your use is an "error adjustment timetable" outlining the new procedure.

Paragraph 28A of Operating Circular No. 4, paragraph 8A of Operating Circular No. 6, and paragraph 40A of Operating Circular No. 8 have been added to reflect the policy set forth in subparagraph 5 above.

#### *Handling of drafts as noncash items*

Subparagraph 5(g) of Operating Circular No. 8 has been amended to clarify the policy that drafts, whether or not accepted, which are payable *at*, as opposed to payable *by*, a bank will not be handled as noncash items.

#### *Handling of bank drafts received in payment of noncash items*

For many years, the Federal Reserve Banks, in remitting to their depositors the proceeds of noncash items handled for collection, have deferred crediting the funds to reserve accounts until the remittance drafts of the paying banks have been, in turn, collected as noncash items. This practice often has delayed payment for several days after the funds have been received by the Reserve Banks. Under the new uniform Reserve Bank policy, the remittance drafts will be handled as cash items and the proceeds of such remittance drafts will be made available to depositing banks in accordance with our credit-availability time schedules (Operating Circular No. 5 and its appendixes).

To reflect this change, paragraphs 23 and 34 of Operating Circular No. 8 have been amended.

#### *Other matters*

Many banks have found that much of the paper work and time delay in resolving adjustments between depositing and paying banks can be eliminated through direct contact between the first endorsing bank and the paying bank. The technique is practical and we encourage you to use it in matters relating to the following:

- Forged endorsement
- Forged signature
- Stale date
- Duplicate payment



- Paid after stop-payment order
- Paid after death of payee
- Altered amount
- Missing, incomplete, or defective endorsement

In those circumstances where you are unable to obtain satisfactory resolution of a particular case in this manner, you may call upon us to assist you.

\* \* \*

If you have any questions regarding these matters, you may contact any of the following:

*Head Office*

Leonard I. Bennetts, Manager, Check Adjustment and Return Items Department (Tel. No. 212-791-5292) (check matters)

John Chowansky, Manager, Collection Department (Tel. No. 212-791-5079) (collection matters)

*Buffalo Branch*

Robert J. McDonnell, Assistant Cashier (Tel. No. 716-849-5022)

*Cranford Office*

Whitney R. Irwin, Assistant Vice President (Tel. No. 201-272-9000, Extension 213)

*Jericho Office*

Joseph M. O'Connell, Assistant Vice President (Tel. No. 516-997-4500)

PAUL A. VOLCKER,  
*President.*

FEDERAL RESERVE BANK  
OF NEW YORK

Third Supplement to  
Operating Circular No. 4  
(Revised effective July 1, 1974)  
Effective February 2, 1976

COLLECTION OF CASH ITEMS

*To the Member Banks of the Second Federal  
Reserve District, and Others Concerned:*

Operating Circular No. 4, Revised effective July 1, 1974, is amended as follows:

1. Paragraph 28A is added after paragraph 28, to read as follows:

28A. 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 circulars. If, within one calendar year from the date of an entry in such an account, such a depositor fails to advise us in writing of its objection to such an entry, the depositor, and any sender, collecting bank or paying bank using the account maintained by the depositor which has handled the item to which the entry relates, shall be deemed to have approved the entry and the statement of account shall be deemed finally adjusted. The foregoing shall not relieve such a depositor from the duty of exercising due diligence to examine statements of account sent to it and of notifying us immediately upon discovery of any error, nor shall it apply to claims based upon the breach of a warranty in respect of an item to which an entry relates by a Federal Reserve Bank.

2. Paragraph 29 is amended to read as follows:

29. The attention of senders is called to our "Instructions to Collecting Banks and Paying Banks" to the effect that (a) each paying bank which takes or receives a credit or obtains a refund in respect of a cash item received by it from or through a Federal Reserve Bank warrants to such Federal Reserve Bank, to a subsequent collecting bank, and to the sender and all prior parties

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that it took all action necessary to entitle it to recover such payment within the times limited therefor; (b) a collecting bank which returns an unpaid item to a Federal Reserve Bank warrants to such Federal Reserve Bank and to the sender and all prior parties that its return of the item was timely; and (c) if a paying or collecting bank, in accordance with applicable State law, makes 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 between such paying or collecting bank and this Bank or any other Federal Reserve Bank, between this Bank or any other Federal Reserve Bank and the sender, and between this Bank and any other Federal Reserve Bank shall become and remain final.

3. Paragraph 29A is added after paragraph 29, to read as follows:

29A. If we are once furnished with a cash item accompanied by a statement, signed by an authorized representative of a sender (other than a Federal Reserve Bank), that, upon the information and belief of such sender, the paying bank did not take all action necessary to entitle it to recover its payment or remittance for such cash item within the times limited therefor by the provisions of Regulation J, thereby causing loss to the sender, we shall, on the basis of such statement, charge the amount of the item to the account maintained or used by, and forward the item to, the collecting bank or paying bank to which the item was originally presented, sent or forwarded by this Bank 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 this Bank cannot obtain the amount of such credit from the paying bank, and such credit to the sender shall be revoked if this Bank subsequently receives — not later than fifteen (15) banking days after this Bank forwarded the item to the collecting bank or paying bank as provided in this paragraph — the same cash item accompanied by a statement, signed by an authorized representative of the paying bank, that the paying bank took all action necessary to entitle it to recover its payment or remittance within the times limited therefor by the provisions of Regulation J, and the paying bank (or collecting bank furnishing such item and statement) will be credited accordingly. No Federal Reserve Bank shall have any responsibility for determining whether the paying bank took all action necessary to entitle it to recover such payment or remittance or whether the return of the item to it by a collecting bank was timely.

PAUL A. VOLCKER,  
*President.*

[Enc. Cir. No. 7801]

FEDERAL RESERVE BANK  
OF NEW YORK

Third Supplement to  
Operating Circular No. 6  
(Revised effective September 21, 1972)  
Effective February 2, 1976

INSTRUCTIONS TO COLLECTING BANKS  
AND PAYING BANKS

*To the Member Banks of the Second Federal  
Reserve District, and Others Concerned:*

Operating Circular No. 6, Revised effective September 21, 1972, is amended as follows:

1. Paragraph 8A is added after paragraph 8, to read as follows:

8A. 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 circulars. If, within one calendar year from the date of an entry in such an account, such a depositor fails to advise us in writing of its objection to such an entry, the depositor, and any sender, collecting bank or paying bank using the account maintained by the depositor which has handled the item to which the entry relates, shall be deemed to have approved the entry and the statement of account shall be deemed finally adjusted. The foregoing shall not relieve such a depositor from the duty of exercising due diligence to examine statements of account sent to it and of notifying us immediately upon discovery of any error, nor shall it apply to claims based upon the breach of a warranty in respect of an item to which an entry relates by a Federal Reserve Bank.

2. Paragraph 14 is amended to read as follows:

14. 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

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

PAUL A. VOLCKER,  
*President.*

[Enc. Cir. No. 7801]

FEDERAL RESERVE BANK  
OF NEW YORK

Third Supplement to  
Operating Circular No. 8  
(Revised effective January 1, 1975)  
Effective February 2, 1976

COLLECTION OF NONCASH ITEMS

To the Member Banks of the Second Federal  
Reserve District, and Others Concerned:

Operating Circular No. 8, Revised effective January 1, 1975, is amended as follows:

1. Paragraph 5(g) is amended to read as follows:

**Items which will not be handled as noncash items**

5. This Bank will not handle as a noncash item any item described in paragraph 3 of this operating circular if:

(g) The item is a draft, whether or not it is accepted, which is payable at a bank but which is not drawn upon a bank.

2. Paragraph 23 is amended to read as follows:

**Coupons and other securities sent for collection**

23. Senders are requested to separate bonds, debentures, coupons, and other similar securities that they send to us for collection into the following classes, with a separate totaled letter for each class:

(a) *Country Collection Letter* — Bonds, debentures, coupons, and other similar securities payable outside New York City for which credit will be given, except when payment or remittance is by bank draft or by check drawn upon a bank other than the paying bank, upon receipt by us of payment in actually and finally collected funds.

(b) *City Collection Letter* — Bonds, debentures, coupons, and other similar securities payable in New York City for which credit will be given, except when payment or remittance is by bank draft or by check drawn upon a bank other than the paying bank, upon receipt by us of payment in actually and finally collected funds.

(c) *City Coupon Cash Letter* — Coupons payable in New York City for which credit, subject to payment in actually and finally collected funds, is desired.

A totaled letter containing only coupons payable in New York City will be treated as a city coupon cash letter unless it indicates that, except when payment or remittance is by bank draft or by check drawn upon a bank other than the paying bank, credit is desired only upon receipt by us of payment in actually and finally collected funds.

(OVER)



3. Paragraph 34 is amended to read as follows:

**Availability of proceeds of noncash items**

34. Except as hereinafter provided with respect to bankers' acceptances drawn upon depositors in a Federal Reserve Bank and due and past due coupons, credit for the proceeds of noncash items, with the usual advice, will be given as directed in a reserve account or other appropriate account, upon receipt by this bank of payment in actually and finally collected funds or upon receipt of advice from another Federal Reserve Bank of such payment, except that credit, when payment or remittance is by bank draft or by check drawn upon a bank other than the paying bank, will be given, subject to payment in actually and finally collected funds, in accordance with the time schedules issued by this Bank under our operating circular entitled "Collection of Cash Items."

4. Paragraph 40A is added after paragraph 40, to read as follows:

40A. 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 circulars. If, within one calendar year from the date of an entry in such an account, such a depositor fails to advise us in writing of its objection to such an entry, the depositor, and any sender, collecting bank or paying bank using the account maintained by the depositor which has handled the item to which the entry relates, shall be deemed to have approved the entry and the statement of account shall be deemed finally adjusted. The foregoing shall not relieve such a depositor from the duty of exercising due diligence to examine statements of account sent to it and of notifying us immediately upon discovery of any error, nor shall it apply to claims based upon the breach of a warranty in respect of an item to which an entry relates by a Federal Reserve Bank.

PAUL A. VOLCKER,  
*President.*

[Enc. Cir. No. 7801]

TO: FEDERAL RESERVE BANK OF NEW YORK  
BRANCH OFFICE

The dishonored check described below and attached is being resent to you because of LATE RETURN:

1. Amount \_\_\_\_\_
2. Dated \_\_\_\_\_
3. Drawn by (Maker) \_\_\_\_\_
4. Payable to (Payee) \_\_\_\_\_
5. Check No. \_\_\_\_\_
6. Handled by our bank (sending bank) as a cash item and sent to \_\_\_\_\_ in cash letter dated \_\_\_\_\_ totaling \_\_\_\_\_, tape total \_\_\_\_\_, listed between items for \_\_\_\_\_ and \_\_\_\_\_.
7. Handled by the drawee or paying bank as a cash item on (date) \_\_\_\_\_
8. Received on (date) \_\_\_\_\_ from your bank in return item letter dated \_\_\_\_\_, totaling \_\_\_\_\_, tape total \_\_\_\_\_, listed between items for \_\_\_\_\_ and \_\_\_\_\_.

We claim that this item, according to our records and the endorsements and stamps on the item, was returned by the paying bank after its midnight deadline, and we certify that, as to notice of dishonor of the item, we received

(  ) wire notice on (date) \_\_\_\_\_

(  ) no notice other than the returned item. [CHECK ONE]

We further certify that such delay in return caused us to incur a financial loss, in that \_\_\_\_\_

PLEASE CREDIT OUR ACCOUNT PROVISIONALLY AND ADVISE.

\_\_\_\_\_  
Sending Bank

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

Prepare and submit in duplicate.

[Enc. Cir. No. 7801]



TO: FEDERAL RESERVE BANK OF NEW YORK  
\_\_\_\_\_ BRANCH \_\_\_\_\_ OFFICE

The dishonored check described below and attached is being resent to you because  
of LATE RETURN:

1. Amount \_\_\_\_\_
2. Dated \_\_\_\_\_
3. Drawn by (Maker) \_\_\_\_\_
4. Payable to (Payee) \_\_\_\_\_
5. Check No. \_\_\_\_\_
6. Handled by our bank (sending bank) as a cash item and sent to \_\_\_\_\_  
\_\_\_\_\_ in cash letter dated \_\_\_\_\_ totaling  
\_\_\_\_\_, tape total \_\_\_\_\_, listed between items for  
\_\_\_\_\_ and \_\_\_\_\_.
7. Handled by the drawee or paying bank as a cash item on (date) \_\_\_\_\_
8. Received on (date) \_\_\_\_\_ from your bank in return item letter  
dated \_\_\_\_\_,  
Totaling \_\_\_\_\_, tape total \_\_\_\_\_,  
Listed between items for \_\_\_\_\_ and \_\_\_\_\_.

We claim that this item, according to our records and the endorsements and stamps  
on the item, was returned by the paying bank after its midnight deadline, and we  
certify that, as to notice of dishonor of the item, we received

(  ) wire notice on (date) \_\_\_\_\_

(  ) no notice other than the returned item. [CHECK ONE]

We further certify that such delay in return caused us to incur a financial loss,  
in that \_\_\_\_\_

PLEASE CREDIT OUR ACCOUNT PROVISIONALLY AND ADVISE.

\_\_\_\_\_  
Sending Bank

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

Prepare and submit in duplicate.

[Enc. Cir. No. 7801]