

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8070]
March 16, 1977]

COLLECTION OF PHOTOCOPIES OF MISSING OR DESTROYED CASH ITEMS

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

For some time, the banking system has encountered problems in the collection of photocopies of missing or destroyed cash items. In this regard, effective April 1, 1977, all Federal Reserve offices will implement uniform procedures designed to expedite the collection of photocopies of such items. These procedures were developed by the Joint Industry Exception Item Task Force, consisting of representatives of The American Bankers Association, the Bank Administration Institute and the Federal Reserve System. The new procedures are as follows:

Obtaining and processing photocopies

1. A Federal Reserve office will:

a. Adjust with the paying financial institution for an item reported "listed not enclosed" provided that the paying financial institution reports that the item was missing during the first-pass (in-proof) processing and initiates the proper missing-item procedure within five business days after the date of the cash letter listing the missing item. (*Note:* Items discovered missing during the second- or subsequent-pass processings at paying financial institutions or their processing centers should be reproduced from microfilm made prior to or during in-proof processing or a photocopy should be requested without entry.)

b. Charge back to the sending financial institution the payment of all missing items ("listed not enclosed") adjusted with a paying financial institution, of all items discovered missing during first-pass processing by a Federal Reserve Bank, and of all items known to have been missing or destroyed while being transported.

c. Request photocopies of checks reported missing or mutilated during subsequent pass processing at the Federal Reserve. A charge back to the sending financial institution will be made if the photocopy, and a copy of the documents specified below, are not provided within 15 calendar days from the date a Federal Reserve office makes such a request of the sending bank.

d. At the end of 15 calendar days, the Federal Reserve will automatically charge the amount of such an item back to the sending institution if the sending financial institution has not provided a photocopy of the item (bearing a current bank endorsement), a properly executed indemnity agreement as currently required, and a copy of the Federal Reserve's request for the photocopy. After the charge back, the provisions of paragraph 2, below, will apply.

2. The Federal Reserve will handle such photocopies as cash item adjustments if, within 30 calendar days from the date of charge-back, the sending financial institution provides the Reserve Bank with a photocopy of the item (bearing a current bank endorsement) *charged back*, a properly executed indemnity agreement as currently required, and a copy of the Federal Reserve charge-back notice. If the photocopy and required documentation are not supplied within the 30-calendar-day period, the sending bank must deal directly with the paying bank or forward the photocopy through the Federal Reserve on a without-entry adjustment basis.

3. In cases where an entire check shipment is missing or destroyed the Federal Reserve will continue to accept photocopies in cash item channels, thereby providing an efficient system for the collection of large numbers of items.

4. The *check adjustment* operating area in Federal Reserve offices will handle the photocopies (except those photocopies presented for payment under paragraph 3 above) and the paying financial institutions will accept an immediate charge for the photocopies presented for payment.

Return of photocopies by paying institutions

5. *Immediate credit will be granted* to the paying financial institution by the Federal Reserve upon the return of a photocopy handled under this procedure, provided:

a. The photocopy is returned through regular return item channels within the midnight deadline or within such time and means as may be provided by applicable State law for any of the same reasons that the original might be returned.

b. The drawer of the original item refuses to permit payment of the photocopy *or* the paying financial institution is unable to contact the drawer *and return is made* within 30 calendar days after the date of charge. Return of photocopies under this provision must be made through check adjustment channels and must be accompanied by a signed statement that the drawer has refused payment of the photocopy *or* that the financial institution has been unable to contact the drawer.

c. The original item has been paid. The paying financial institution may return a photocopy, the original of which has been paid within 30 calendar days *after the date of charge*. Return of photocopies under this provision must be made through check adjustment channels and must include a photocopy (front and back) of the paid original item and complete source-of-receipt documentation.

6. Any photocopies returned by the paying financial institution after 30 calendar days, but within nine months after the date of charge, will be handled by the Federal Reserve on a without-entry basis. Supporting documentation referred to in paragraph 5 c, above, will be required.

Noncash handling

7. Photocopies of cash items will no longer be handled as noncash items. However, photocopies of certain noncash items will continue to be handled as noncash items, in accordance with the provisions of our Operating Circular No. 8.

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Additional information

1. The "Paid Photocopy" procedure under which we accept photocopies of paid checks and credit the sender on a provisional basis subject to return by the paying bank, within 15 days, will no longer be in effect upon implementation of the above-described procedure because the handling of such photocopies will be on a cash adjustment basis.

2. Submission of photocopies of checks (photocopy size should be no less than the minimum check size specified by the American Bankers Association) by sending banks on a cash adjustment basis should be made directly to the *check adjustment* area of the office of this Bank in whose territory the paying bank is located. Except for large numbers of photocopies (see paragraph 4 below), all submission should be on a cash item adjustment entry basis.

3. All offices of this Bank will require strict compliance with the provisions of our operating circulars regarding the data that must accompany each photocopy, i.e., each photocopy must bear a current endorsement of the sending bank, a copy of this Bank's request for photocopy or its debit advice for missing item, and a legend of indemnity officially signed as part of or attached to the photocopy. Photocopies sent without this documentation will be returned to senders.

4. Photocopies of ten or more checks from lost cash letters should be deposited at an office of this Bank as a low-speed (nonmachineable) cash letter for processing and credit in accordance with our Operating Circular No. 5.

5. Return of photocopies by a paying bank within the midnight deadline should be made on a cash basis under current procedures. Any photocopies returned after the midnight deadline should be submitted on a check adjustment basis to the *check adjustment* area of the appropriate office of this Bank.

6. This procedure does not apply to photocopies of Government checks.

Paragraphs 41 through 41E of Operating Circular No. 4 and paragraphs 24 through 24E of Operating Circular No. 6, have been amended to reflect the new photocopy procedures. In addition, paragraph 44 of Operating Circular No. 8 has been deleted. Copies of the Operating Circular supplements are enclosed.

If you have any questions relating to the above, you may contact any of the following:

Head Office

Leonard I. Bennetts, Manager, Check Adjustment and Return Items Department
(Tel. 212-791-5292)
Ann S. Jackson, Chief, Check Adjustment Division
(Tel. 212-791-5294)

Buffalo Branch

Robert J. McDonnell, Assistant Cashier
(Tel. 716-849-5022)
David P. Schwarzmuller, Chief, Check Division
(Tel. 716-849-5051)

Cranford Office

Whitney R. Irwin, Assistant Vice President
(Tel. 201-272-9000)
Gerald V. Lombardo, Assistant Chief, North Jersey Regional Check Processing Division
(Tel. 201-272-9000)

Jericho Office

Joseph M. O'Connell, Assistant Vice President
(Tel. 516-997-4500)
Gerri Virgilio, Supervisor, Adjustment Section
(Tel. 516-997-4500)

Utica Office

Robert C. Thoman, Vice President
(Tel. 315-736-8321)
Gerard F. Clodgo, Special Assistant
(Tel. 315-736-8321)

Additional copies of the enclosures will be furnished upon request.

PAUL A. VOLCKER,
President.

FEDERAL RESERVE BANK
OF NEW YORK

Fifth Supplement to
Operating Circular No. 6
(Revised effective September 21, 1972)
Effective April 1, 1977

INSTRUCTIONS TO COLLECTING BANKS
AND PAYING BANKS

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

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

1. Paragraph 24 and its heading have been amended to read as follows:

Missing or destroyed cash items; photographic copies

24. The amount paid or remitted for cash items discovered to be missing or destroyed will be credited or refunded to subsequent collecting banks or paying banks as follows:

(a) We will credit or refund the amount paid or remitted for a cash item which is discovered to be missing during the initial proving of an incoming cash letter by a subsequent collecting bank or the paying bank, or which is known to be missing or destroyed in transit to a subsequent collecting bank or the paying bank, and concerning which a report is received by this Bank, or by a subsequent collecting Federal Reserve Bank (which sends such report to us when received), within five (5) business days of such subsequent collecting or paying bank from the date of the cash letter which listed the missing or destroyed item.

(b) We will credit or refund the amount paid or remitted for a cash item (i) which is discovered to be missing or destroyed after the initial proving of an incoming cash letter by a subsequent collecting bank, (ii) concerning which a report is received by this Bank, or by a subsequent collecting Federal Reserve Bank (which sends such report to us when received), within five (5) business days of such subsequent collecting bank from the date of the cash letter which listed the missing or destroyed item and (iii) the amount of which we have charged back to the sender after the fifteen (15) day period provided in subparagraph (b) of paragraph 41 of our Operating Circular No. 4, "Collection of Cash Items."

2. Paragraphs 24A through 24E have been added to read as follows:

24A. In the event we receive a properly prepared photographic copy of a cash item in accordance with our Operating Circular No. 4, "Collection of Cash Items," we will present, send or forward such copy as a cash item subject to all the rules as to payment or remittance for, and return of, cash items, other than the instructions regarding protest and wire advice of non-payment, but new payment or remittance shall not be required for a photographic copy where payment or remittance for the original cash item has not been credited or refunded. Such a photographic copy will also be presented, sent or forwarded subject to the right of a paying bank to return the copy for credit or refund within thirty (30) calendar days from the banking day of its receipt by such paying bank, provided—

(a) the copy is accompanied by a statement, signed by an authorized representative of the paying bank, that the drawer of the original cash item has refused payment of the photographic copy or that the paying bank has been unable to contact such drawer, or

(b) the copy is accompanied by a photographic copy of both front and back of the paid original cash item together with a statement, signed by an authorized representative of the paying bank, that such original has been paid and giving (i) the name and routing number, if any, of the bank or other person from which such original was received and (ii) the date on which such original was received by the paying bank or, in the event such original was received from this Bank, the date of the cash letter that contained such original and the dollar amounts of the items listed prior and subsequent to such original in such cash letter, together with the total amount of the cash letter and of the batch or package therein which contained the original cash item and the sequence number of the original cash item, if any.

24B. Any subsequent collecting bank which receives an unpaid photographic copy from a paying bank for return to us should forward the return copy to us before midnight of its next banking day following the banking day of its receipt of the return copy.

24C. No Federal Reserve Bank shall have any responsibility for determining whether the paying bank took all action necessary to entitle it to recover its payment or remittance for a photographic copy of a cash item within the times limited therefor by the provisions of paragraph 24A or whether any subsequent collecting bank returned the copy to it within the time limited therefor by paragraph 24B. Nor shall a Federal Reserve Bank have any responsibility for determining whether a report of a missing or destroyed cash item by a subsequent collecting bank or the paying bank, or whether a statement with respect to the handling of a photographic copy of a cash item by the paying bank, is correct.

24D. A properly prepared photographic copy will bear a current endorsement of the sender and the following legend, or one of the equivalent effect, signed by or in behalf of the sender:

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

24E. (a) (i) A paying bank, or a subsequent collecting bank, may return without entry, with appropriate documentation, a photographic copy which the paying bank or subsequent collecting bank did not return within the time provided in paragraph 24A, provided such return is made within nine (9) calendar months from the banking day of its receipt by such paying bank, and (ii) a paying bank, subsequent collecting bank or this Bank may report without entry as missing or destroyed a cash item which it discovered to be missing or destroyed either after the time provided in paragraph 24 or after the initial proving of the incoming cash letter. In the event we receive such a without entry return photographic copy or such a without entry report of a missing or destroyed cash item with a request that we ask our sender to make refund therefor, we shall credit or make refund to the paying bank or subsequent collecting bank and charge our sender only if the latter specifically authorizes us to do so.

(b) If a properly prepared photographic copy is received without entry from a sender, we will credit the sender and charge the paying bank or a subsequent collecting bank only if the latter specifically authorizes us to do so.

(c) This Bank reserves the right to make special arrangements involving revised procedures to facilitate the handling of photographic copies of large numbers of missing or destroyed cash items.

PAUL A. VOLCKER,
President.

FEDERAL RESERVE BANK
OF NEW YORK

Fifth Supplement to
Operating Circular No. 4
(Revised effective July 1, 1974)
Effective April 1, 1977

COLLECTION OF CASH ITEMS

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

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

1. Paragraph 41 and its heading have been amended to read as follows:
Missing or destroyed cash items; photographic copies

41. Credit given for cash items discovered to be missing or destroyed will be charged back to senders as follows:

(a) We will charge back the credit given for a cash item which (i) is discovered to be missing during the initial proving of an incoming cash letter by this Bank, or by a subsequent collecting bank or by the paying bank, or (ii) is known to be missing or destroyed in transit to a subsequent collecting bank or to the paying bank, and which is reported to this Bank as missing or destroyed in accordance with our Operating Circular No. 6, "Instructions to Collecting Banks and Paying Banks."

(b) We will request the sender to furnish us with a properly prepared photographic copy of a cash item discovered to be missing or destroyed after the initial proving of an incoming cash letter by this Bank or by a subsequent collecting bank which is reported to this Bank as missing or destroyed in accordance with our Operating Circular No. 6, "Instructions to Collecting Banks and Paying Banks." We will charge back the credit given for such item if such a copy, together with a copy of the request therefor, is not received by this Bank, or by a prior collecting Federal Reserve Bank which has made a similar request (and which should forward such copy to us when received), within fifteen (15) calendar days from the date the request was sent by the first collecting Federal Reserve Bank.

2. Paragraphs 41A through 41E have been added to read as follows:

41A. We will handle as a cash item a properly prepared photographic copy of a cash item—

(a) if (i) the credit given for the original cash item was charged back by this or a prior collecting Federal Reserve Bank as provided in subparagraph (a) or (b) of paragraph 41, and (ii) such copy, together with a copy of the advice of chargeback, is received by this Bank, or by a prior collecting Federal Reserve Bank which has charged such amount back (and which forwards such copy and advice to us when received), within thirty (30) calendar days from the date the amount of such cash item was charged back by the first collecting Federal Reserve Bank, or

(b) if such copy, together with a copy of the request therefor, is received by this or a prior collecting Federal Reserve Bank within the time provided in subparagraph (b) of paragraph 41, but new credit will not be given for such copy, or

(c) if the original cash item is known to be missing or destroyed in transit to the first collecting Federal Reserve Bank.

41B. The attention of senders is called to our Operating Circular No. 6, "Instructions to Collecting Banks and Paying Banks," to the effect that we will present, send or forward a photographic copy subject to all the rules as to payment or remittance for, and return of, cash items, other than instructions regarding protest and wire advice of nonpayment, and subject also to the right of a paying bank to return the photographic copy for credit or refund within thirty (30) calendar days from the banking day of its receipt by such paying bank—

(a) if the copy is accompanied by a statement, signed by an authorized representative of the paying bank, that the drawer of the original cash item has refused payment of the photographic copy or that the paying bank has been unable to contact such drawer, or

(b) if the copy is accompanied by a photographic copy of both front and back of the original paid cash item together with a statement, signed by an authorized representative of the paying bank, that such original has been paid and giving information as to the receipt of such original by the paying bank.

41C. No Federal Reserve Bank shall have any responsibility for determining whether the paying bank took all action necessary to entitle it to recover its payment or remittance for a photographic copy of a cash item or whether the return of the copy to it by a subsequent collecting bank was timely. Nor shall a Federal Reserve Bank have any responsibility for determining whether a report of a missing or destroyed cash item by a subsequent collecting bank or the paying bank, or whether a statement with respect to the handling of a photographic copy of a cash item by the paying bank, is correct.

41D. A properly prepared photographic copy must bear a current endorsement of the sender and the following legend, or one of the equivalent effect, signed by or in behalf of the sender:

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

41E. (a) A sender may send to us without entry a properly prepared photographic copy which it did not send on time as provided in paragraph 41A, with a request that we ask the paying bank or a subsequent collecting bank to pay or remit therefor, in which event we shall credit the sender and charge the paying bank or subsequent collecting bank only if the latter specifically authorizes us to do so.

(b) If a returned photographic copy or a report of a missing or destroyed cash item is received without entry from the paying bank or subsequent collecting bank, we will credit or make refund to the paying bank or subsequent collecting bank and charge the sender only if the latter specifically authorizes us to do so.

(c) This Bank reserves the right to make special arrangements involving revised procedures to facilitate the handling of photographic copies of large numbers of missing or destroyed cash items.

PAUL A. VOLCKER,
President.

FEDERAL RESERVE BANK
OF NEW YORK

Fourth Supplement to
Operating Circular No. 8
(Revised effective January 1, 1975)
Effective April 1, 1977

COLLECTION OF NONCASH ITEMS

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

Operating Circular No. 8, Revised effective January 1, 1975, is amended by deleting paragraph 44. Accordingly, paragraphs 45 and 46 are renumbered 44 and 45.

PAUL A. VOLCKER,
President.