

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 8580
May 25, 1979]

COLLECTION OF PHOTOCOPIES OF MISSING OR DESTROYED CASH ITEMS

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

As part of a continuing effort to improve the handling for collection of photocopies of lost or destroyed cash items, the Federal Reserve System has implemented several procedural changes. This circular describes the complete procedure for handling photocopies of lost or destroyed commercial checks, including the latest changes.

1. Handling of missing items

a. If a Federal Reserve office discovers during first pass (in-proof) processing that an item is listed but not enclosed, it will immediately charge back the amount of the item to the sending financial institution.

b. If a Federal Reserve office discovers during the second or subsequent pass processing that an item is missing, it will charge back the amount of the missing item(s) to the sending financial institution within 20 business days. The Federal Reserve office will allow adequate time to determine whether it can discover internal offsets for the missing item. A Federal Reserve office will no longer request the sending financial institution to send photocopies of items missing in the second pass processing.

c. If a paying financial institution discovers that an item, package, or bundle is missing during first pass (in-proof) processing and reports it to the Federal Reserve within 5 business days of the date of its cash letter, the Federal Reserve will adjust with the paying financial institution and charge back the amount of the missing item, package, or bundle to the sending financial institution. If the paying financial institution makes the report after 5 business days, but within 20 business days, it will be accepted on a "without entry" basis for entry after appropriate research; after 20 business days, it will be accepted only on a "without entry" basis. If the paying financial institution discovers the item(s) missing during the second or subsequent pass processing, the institution should produce the item(s) from microfilm or request the Federal Reserve office to provide it with a photocopy without entry.

2. Handling of photocopies

a. Each Federal Reserve office will handle a photocopy of an item as a cash item for immediate credit through check adjustment channels if, within 30 business days of the date of charge back by the local Federal Reserve office, the sending financial institution provides that office with: (a) a photocopy of the item charged back (bearing a current bank endorsement); (b) an indemnity agreement as currently required; and (c) a copy of the Federal Reserve office charge back notice. If the photocopy and other documentation are not provided to the Federal Reserve office within the 30 business days, the sending financial institution must deal directly with the paying bank.

b. If an entire check shipment involving a large number of items is lost or destroyed, the Federal Reserve will handle photocopies of these items as cash items, provided:

- (1) The sending financial institution first determines that at least several items in the shipment remain unpaid;

(Over)

- (2) The photocopy cash letter is submitted as a nonmachinable cash letter and identified as containing photocopies of a lost or destroyed check shipment; and
- (3) Each photocopy bears a current endorsement of the sending financial institution and is accompanied by an indemnity agreement as currently required.

c. Sending financial institutions should send photocopies as they become available rather than wait until an entire cash letter is reconstructed. Before processing the cash letter, the Federal Reserve office will trace several of the photocopies to determine whether the original checks remain unpaid.

3. Return of photocopies by the paying institution

a. The Federal Reserve will give immediate credit to the paying financial institution upon the return of a photocopy handled under the above procedures, provided:

- (1) 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 reasons that the original might be returned;
- (2) 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 returns the item within 20 business days after the date of charge. (Return of the photocopy under this provision must be made through check adjustment channels and must be accompanied by a statement signed by an authorized person that the drawer has refused payment of the photocopy or that the financial institution has been unable to contact the drawer); or
- (3) The original item has been paid, and the paying financial institution returns a photocopy of the front and back of the paid original item through check adjustment channels within 20 business days after the date of charge. (Return of the photocopy under this provision must be accompanied by a copy of the Federal Reserve charge advice, and complete source-of-receipt documentation. If the source of receipt of the original item is a Federal Reserve office other than the office presenting the photocopy, the charge will be made to the office originating the photocopy.)

b. A paying financial institution may return a photocopy after 20 business days, but within 9 months, after the date of charge by its local Federal Reserve office if the return is on a without entry basis and the original item has been paid. Under this provision, a photocopy (front and back) of the paid original item must be accompanied by a copy of the Federal Reserve charge advice, and complete source-of-receipt documentation.

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This Bank's Operating Circular No. 4, "Collection of Cash Items," and Operating Circular No. 6, "Instructions to Collecting Banks and Paying Banks," will be amended to reflect these new procedures. If you have any questions or comments regarding the above procedures, please contact:

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