

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8627]
[August 20, 1979]

COUPON COLLECTION SERVICES

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

We are pleased to announce an improved collection service for processing and collecting the proceeds of matured corporate and municipal coupons deposited with Federal Reserve Banks for collection, beginning October 9, 1979. Under this Systemwide service, credit for the coupons will be made available in accordance with a standard credit availability schedule.

Under present procedures, some coupons — principally those payable outside New York City — are accepted for collection only, that is, credit is given to depositors when payment has been received by a Reserve office from a coupon paying agent, and payment is often received well after the maturity date. Under the terms of the new procedures, depositing banks will be in a position to predetermine the date of credit for all coupons. Collection delays, if any, will not result in losses of credit availability to depositing member banks.

These new procedures will require member banks to deposit coupons with standard Coupon Cash Letters (deposit tickets) attached to each deposit. In this connection, please complete the enclosed order form and return it to the Collection Division at our Head Office no later than August 31, 1979, indicating the approximate number of forms you will need for one year. The Coupon Cash Letter forms will be sent to you without charge.

To expedite the flow of funds from coupon collection through the banking network, this Bank will implement an automatic charge program along with the new collection program. Both programs are described in the enclosed booklet, entitled "Systemwide Cash Processing of Matured Corporate and Municipal Coupons," and in the accompanying amendments to our Operating Circular No. 8, "Collection of Noncash Items." Also enclosed are agreement forms that must be executed and returned to our Head Office or Buffalo Branch, as appropriate, by September 21, 1979, in order to participate fully in the new programs.

Should you have any questions concerning the cash processing or automatic charge programs, please call, at our Head Office, Joseph F. Donnelly, Manager, Collection Department (Tel. No. 212-791-7928) or Thomas F. Curry, Chief of the Collection Division (Tel. No. 212-791-5081); or, at our Buffalo Branch, Gary S. Weintraub, Operations Officer (Tel. No. 716-849-5020), or Joseph M. Kirby, Chief of the Collection, Loans, and Fiscal Agency Division (Tel. No. 716-849-5043).

THOMAS M. TIMLEN,
First Vice President.

FEDERAL RESERVE BANK OF NEW YORK

SYSTEMWIDE CASH PROCESSING OF MATURED CORPORATE AND MUNICIPAL COUPONS

INTRODUCTION

As a service of membership, member banks may send corporate and municipal coupons to the Federal Reserve Banks for collection. The Reserve Banks sort the coupon envelopes and forward them to the appropriate paying agent for payment. Most Federal Reserve offices presently handle such coupon deposits on a collection basis, i.e., credit is not passed to the depositor until the Reserve Bank receives payment from the paying agent. This can take as little as a few days or as long as several weeks.

The collection service is inherently labor intensive and is characterized by paper dominated operations and innumerable accounting entries between Reserve Banks and their depositors. This results from the individual, customized handling that each coupon deposit must receive. For example, let us say a member bank depositor sends to its local Federal Reserve office a collection letter containing ten coupon envelopes. Handling the items on a collection basis, the Reserve Bank would generate ten collection letters and forward each envelope to the respective paying agent. Then, as each of the ten paying agents paid the items, the Reserve Bank would function a separate credit entry to the depositor's reserve account. To deal with the inefficiencies inherent in the collection service and to seek ways to expedite the flow of funds from coupon collections through the banking network, the Federal Reserve System established the Task Force on Noncash Collection Activities.

I. CASH PROCESSING

The result of the Task Force's work was the recommendation that the collection of matured corporate and municipal coupons be handled on a cash processing basis. The concept of cash processing is not new; in fact, it allows the banking network to clear millions of checks each day in a highly efficient manner. The concept is not entirely new to coupon processing either; several Reserve offices handle coupons payable in the Reserve city on a cash basis. In recommending cash processing on a Systemwide

basis for all coupon deposits the Task Force sought to achieve the following objectives:

- Introduce uniformity of service throughout the entire Federal Reserve System.
- Increase the efficiency in processing coupons for all parties, i.e., depositors, Reserve Banks and payors.
- Decrease the number of accounting entries involved with coupon processing and thereby reduce reconciliation problems for all parties.
- Expedite the flow of funds from coupon collections through the banking network.

The key concept in cash processing for coupons is bulk processing instead of individual handling. Under this concept, credit for incoming deposits is passed on a letter total basis rather than on each individual item contained in the deposit, even though the items may be presented to different paying agents. Under the present collection system credits to the depositor are directly linked to payments for each envelope in the deposit from each paying agent involved. Under cash processing, credit to the depositor is divorced from payments for the items from the paying agents. This fact allows credit to be passed to depositors on a fixed, preset time schedule. It also allows envelopes from all depositors to be consolidated and presented to paying agents in bulk form. By divorcing credits from payments, it is no longer necessary to relate paid items to individual depositors; rather, it is only necessary to monitor the receipt of payment for total consolidated shipments to individual paying agents. Paying agents will make only one payment for the value of a total collection letter, thereby reducing the clerical effort on both ends of the collection process.

Depositors should clearly understand that, as with checks, credit passed on an automatic, preset time schedule is *provisional credit, subject to payment in actually and finally collected funds*. Thus, should a paying agent return a coupon envelope to us unpaid, we would function a charge to the depositor's reserve account for the amount of the returned item.

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II. CREDIT AVAILABILITY

In submitting coupons for collection, depositors will be required to send separate cash letters for each of the following categories:

- Matured city items
- Matured country items
- Future-due city items
- Future-due country items

City items are defined as those payable in the Federal Reserve city to which the items are sent by the depositor. For example, items sent to the Fed in New York by a bank located in Newark, New Jersey that were payable in New York City would be city items. However, if the same items were payable *anywhere* outside of New York City, including other Federal Reserve cities, they would be considered country items.

Deposits correctly broken down into the four categories listed above will receive credit according to the following time schedule:

A. *Matured City Items*

For letters containing coupons which are payable in the Reserve city of the receiving Federal Reserve Bank and which are matured (due or past due), credit will be passed *three business days* after receipt.

B. *Matured Country Items*

For letters containing coupons which are payable outside the Reserve city of the receiving Federal Reserve Bank and which are matured, credit will be passed in *eight business days*.

C. *Future-Due City Items*

For letters containing coupons which are payable in the Reserve city of the receiving Federal Reserve Bank and which are due on some future date, credit will be passed *one business day after maturity provided the letter is received at least two business days (but not more than thirty days) prior to maturity*.

D. *Future-Due Country Items*

For letters containing coupons which are payable outside the Reserve city of the receiving Federal Reserve Bank and which are due on some future date, credit will be passed *two business days after maturity provided the letter is received at least six business days (but not more than thirty days) prior to maturity*.

NOTE: Future-due items not received at least two business days prior to maturity in the case of city items, or six business days prior in the case of country items, will be given credit based on the schedule for past due items, i.e., three and eight business days after receipt, respectively.

In developing this credit availability schedule the Task Force had three goals in mind. The first was to minimize coupon float. Anytime credit is passed before the offsetting charge is made, float is created; i.e., money has been added to the system that was not previously there. This credit availability schedule seeks to place the time at which credit is passed as close as possible to the time at which the offsetting charge is made.

The second goal of the credit availability schedule is to encourage the sending of securities well in advance of maturity. By sending well in advance of maturity, depositors will receive the earliest credit possible under the schedule, that is, the day after maturity for city items and two days after maturity for country items. In addition, advance sending will allow items to be presented to paying agents sufficiently in advance of maturity so that the payors can examine and, if necessary, return the items before the maturity date. In many cases this will allow the item to be rerouted prior to maturity or shortly thereafter, thereby minimizing delays in credit being passed.

The third goal of the credit availability schedule is to encourage direct sendings of securities by providing faster credit for direct sent items. Items payable in a Federal Reserve city should be sent directly to that Reserve office instead of to the depositor's local Reserve office. This allows the items to be treated as city items rather than country items, thereby receiving the faster credit, i.e., one or three days versus two or eight days. An example should help illustrate this concept: a Second District depositor having coupons payable in the city of Detroit should send the items directly to the Federal Reserve Branch at Detroit rather than to the Fed in Chicago or the Fed in New York. By sending the items directly to Detroit no intermediate Fed is involved; the fastest possible collection of the items results because only the sending depositor in the Second District and the collecting Fed in Detroit are involved. The Fed in Detroit handles the items as city items whereas the Fed in Chicago or New York would have handled them as country items. Therefore, depositors should send all cash letters directly to the Federal Reserve office that will ultimately collect payment for the items from the paying agents. Towards this end, the Task Force has developed a Routing Guide for use by depositors. It lists the paying agents located in each Federal Reserve city and the location of country paying agents and the proper Federal Reserve office serving that location.

III. STANDARD FORMS

As stated earlier, one of the goals of System-wide cash processing is to establish uniformity within the coupon collection service throughout

the Federal Reserve System. In keeping with this goal, the Task Force has developed two standard forms for use throughout the System.

Coupon Cash Letter

The Coupon Cash Letter will be used by member banks in depositing coupons for collection with Federal Reserve offices, and by Federal Reserve Banks in sending coupons to each other for final presentment to paying agents. This multi-part, continuous-feed form must accompany all coupon deposits. One form should be prepared for each cash letter and all cash letters must be sorted into one of the four categories previously listed. Only one letter for each category should be prepared for any one shipment. The last copy of the Coupon Cash Letter should be detached as the sender's file copy. All remaining copies should accompany the cash letter and associated coupon envelopes being sent to the Federal Reserve Bank. Any cash letter that is received without a corresponding Coupon Cash Letter form will be subject to return. Any cash letter not properly sorted into one of the four allowable categories will be subject to return or, if processed, all items will be given country availability (two or eight days).

In accepting coupons from customers, member banks should be certain that they keep a record of the customer and the coupons deposited should it be necessary at a later date to identify the items. All coupons must be placed in sealed, standard coupon window envelopes. A separate envelope is required for each issue and maturity date. Mixed issues and/or maturity dates will be subject to return by the paying agent. The following information should be supplied in the appropriate spaces on the envelope:

- The name of the sender.
- The name of its depositor.
- The sender's collection number.
- A brief description of the coupons enclosed including the number of coupons, denomination value of each coupon and total dollar value of the coupons enclosed.

Properly prepared coupon envelopes must be sorted into one of the four permissible categories: city matured, country matured, city future-due or country future-due. The envelopes in each category should then be separately listed, described (either by issue or collection number), and totaled on a transmittal letter. A separate transmittal letter must be prepared for each of the four categories. Each transmittal letter should then be covered with a Coupon Cash Letter form. The following information must be provided in the appropriate spaces on the Coupon Cash Letter:

- Date (the same as on the transmittal letter).

- Reference number of sender (same as on the transmittal letter).
- Total dollar amount of the enclosed envelopes (same as the total value shown on the transmittal letter).
- Description of coupons (check the appropriate box; if future-due, the due date should be indicated; only one future-due date is permissible per cash letter).
- Type of cash letter (check the appropriate box).
- FROM: besides the bank's name and address you must also show your ABA number.
- TO: show the name and address and ABA number of the Federal Reserve office to which the items are being sent.

At this point the Coupon Cash Letter and associated transmittal letter and coupon envelopes are ready to be shipped to the Federal Reserve office shown on the Coupon Cash Letter. In instances where more than one cash letter (i.e., past-due city, future-due city, etc.) is being sent to the same Federal Reserve office, each Coupon Cash Letter and associated transmittal letter and coupon envelopes should be placed and sealed in a separate envelope with the total cash letter amount and the category of the letter (i.e., city or country) indicated on the outside. These envelopes should then be grouped together and sent in one or more large envelopes or bags on which no dollar value is shown.

Coupon Collection Letter

The Coupon Collection Letter is a multi-part, continuous-feed form that will be used by Federal Reserve Banks in sending coupon envelopes to paying agents for payment. Copy A will accompany the coupon envelopes being sent to the paying agent along with a transmittal listing that will show our collection identification number and the amount for each coupon envelope enclosed. Copy A indicates the date on which the payor's reserve account, or that of its designated member correspondent, will be automatically charged for the amount of the collection letter. (See Section IV below and Appendix C to Operating Circular No. 8 for a detailed discussion of automatic charge). On the charge date an advice of charge showing essentially the same information as that shown on Copy A of the Coupon Collection Letter will be sent to the member bank whose reserve account is being charged. Thus, member bank payors will receive both Copy A and an advice of charge, whereas nonmember bank payors and nonbank payors will only receive Copy A. The amount of the charge will always be for the *full amount of the cash letter*. In cases where the paying agent has returned future-due items unpaid prior to the charge date, a credit for the

amount of the returned items will be functioned. As with checks, any discrepancies between the transmittal listing and the coupon envelopes (amount listed incorrectly, envelope enclosed-amount not listed, etc.) should be brought to our attention. The appropriate adjusting entry (debit or credit) will be functioned upon receipt of written notification that a discrepancy exists.

IV. AUTOMATIC CHARGE

In developing the credit availability schedule for depositors, one of the Task Force's primary concerns was float. As stated earlier, anytime credit is passed before the offsetting charge is made, float is created. The most effective way to deal with the float problem is with an automatic charge program similar to that associated with check processing. Under such a program charges for coupon cash letters are made to the paying agent's reserve account, or that of a designated member correspondent, automatically on a fixed time schedule by the collecting Reserve Bank.

The Federal Reserve Bank of New York is implementing the automatic charge program simultaneously with the start of the cash processing program. Paying agents will be charged for coupon cash letters one business day after receipt for past-due items and one business day after maturity for future-due items. Charges will always be for the full amount of the cash letter as shown on Copy A of the Coupon Collection Letter, which will accompany the coupon envelopes. Separate credits will be passed for any items returned to us unpaid.

V. POSTAGE AND INSURANCE

In keeping with the objective of standardizing the coupon collection system throughout the Federal Reserve System, the Task Force has developed a uniform policy for administering postage and insurance charges. At the present time, procedures for handling P & I charges vary from district to district. Some districts base their P & I charges on a fixed rate per thousand-dollar value of each coupon deposit; others base their charges on actual costs. Some districts pass along P & I charges for delivering coupons held in safekeeping for member banks; others absorb this cost.

To simplify this varying array of procedures, the Task Force has adopted a fixed-rate concept for assessing postage and insurance charges on coupon deposits. Based upon a detailed analy-

sis of costs and charges currently in use throughout the System, the Task Force has chosen a starting rate of \$1.00 per thousand dollars of coupon deposit value. Deposits of less than \$1,000 will be charged the minimum flat rate (\$1.00), while the maximum P & I charge on any deposit will be \$100.00. This rate will be monitored on an ongoing basis and will be adjusted upward or downward semiannually as experience dictates.

Two other changes concerning P & I charges have been adopted by the Task Force. First, all Federal Reserve offices will absorb the cost of delivering coupons held in safekeeping for member banks, regardless of the location of the paying agent. This policy is based on the belief that the collection of coupons held in safekeeping is part of the safekeeping service offered to member banks. Second, all Reserve offices will absorb the cost of delivering coupons to their Reserve city paying agents. This is based on the rationale that the expenses incurred in such deliveries are relatively small due to the use of clearing house facilities in many Reserve cities and the use of bank messengers in others.

In summary, postage and insurance charges for coupon deposits will be based on flat rate of \$1.00 per thousand dollars of coupon deposit value and will only be assessed against country cash letters. This will also be true for direct-sent coupons, i.e., there will be no charges for direct-sent coupons payable in Reserve cities. This is another advantage to direct sendings of coupons payable in Reserve cities; not only will such items receive faster credit but they will also be free of any Fed-assessed postage and insurance charges. These simplified postage and insurance procedures will greatly reduce the number of P & I entries between Feds and member banks that must be processed and reconciled. It will also allow depositors to determine the exact P & I charge on a coupon deposit before it is sent to the Fed.

VI. BONDS AND OTHER NONCASH ITEMS

The changes resulting from the move to Systemwide cash processing will initially apply only to corporate and municipal coupons. The collection of bonds will not be affected at this time. It is anticipated that at some time in the future the collection of bonds will also be handled on a cash basis. The collection of other noncash items such as maturing acceptances, drafts, checks that cannot be handled as cash items will also not be affected by the Systemwide cash processing of coupons.

Payor's Agreement Form

(Date)

FEDERAL RESERVE BANK OF NEW YORK
33 Liberty Street
New York, New York 10045

or
BUFFALO BRANCH
FEDERAL RESERVE BANK OF NEW YORK
160 Delaware Avenue
Buffalo, New York 14240

Attention: Collection Division — Head Office
(Collection, Loans, and Fiscal Agency Div. — Buffalo Branch)

In order to expedite the payment of coupons we agree to the terms and conditions set forth in Appendix C of your Operating Circular No. 8, regarding the payment of coupons. We designate as correspondent against whose account on your books credit [Name of member bank] and debit may be entered for the payment or return of coupons payable to us.

This agreement shall be effective when you receive a duly executed letter of authorization from our correspondent.

.....
[Name of nonmember bank or nonbank payor]

By:
(Authorized signature)

.....
(Title)

Correspondent's Agreement Form

(Date)

FEDERAL RESERVE BANK OF NEW YORK
33 Liberty Street
New York, New York 10045

or
BUFFALO BRANCH
FEDERAL RESERVE BANK OF NEW YORK
160 Delaware Avenue
Buffalo, New York 14240

Attention: Collection Division — Head Office
(Collection, Loans, and Fiscal Agency Div. — Buffalo Branch)

We agree to act as correspondent for coupons payable by [Name of nonmember bank or nonbank payor]
We authorize you to charge or credit our account on your books and to make other appropriate adjustments in connection with the presentment or return of coupons payable by

..... [Name of nonmember bank or nonbank payor]
in accordance with Appendix C of your Operating Circular No. 8. You will provide advices of any such entries to this Bank and the payor. If on any business day we cannot accept any such charge, we will first give notice to the payor and then notify you by telephone and immediately thereafter in writing on or before 2 p.m. of the payment date.

.....
[Name of member bank]

By:
(Authorized signature)

.....
(Title)

ORDER FORM

COUPON CASH LETTER

To: Chief
Collection Division
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

From: _____
(Name of Bank)

(Address)

(Name & Phone No. of
Person to be contacted)

We will need _____ Cash Letters annually. The
above estimate was arrived at in the following manner:

1. Number of shipments^{1/} sent to your office
during January-June 1979 _____ x3= _____ (1)
2. Number of shipments sent to other Reserve
Banks during January-June 1979 _____ x3= _____ (2)
3. Sum of line 1 and line 2 _____ (3)
4. Line 3 multiplied by 2 _____ x2 _____ (4)
5. Line 4 adjusted to reflect any anticipated
changes in volume of shipments (Please explain). _____ (5)

It is our understanding that the forms will be sent to us
free of charge and that the first shipment will consist of approxi-
mately a six month supply. They are to be sent to the attention
of: _____
(Name)

1/ The number of shipments represents the number of packages shipped to
various Federal Reserve Banks via the mail, armored carrier, etc.
It's not to be confused with the number of coupon envelopes in-
cluded in each shipment. For example: a package containing past
due city coupon envelopes, past due country envelopes, future
due city coupon envelopes and future due country coupon envelopes
shipped to the Federal Reserve Bank in one package should be counted
as one not four, regardless of how many coupon envelopes were en-
closed in that package.

FEDERAL RESERVE BANK ABA NUMBERS

Atlanta	0610-0014-6
Baltimore	0520-0027-8
Birmingham	0620-0019-0
Boston	0110-0001-5
Buffalo	0220-0026-6
Charlotte	0530-0020-6
Chicago	0710-0030-1
Cincinnati	0420-0043-7
Cleveland	0410-0001-4
Dallas	1110-0003-8
Denver	1020-0019-9
Detroit	0720-0029-0
El Paso	1120-0001-1
Houston	1130-0004-9
Jacksonville	0630-0019-9
Kansas City	1010-0004-8
Little Rock	0820-0013-8
Los Angeles	1220-0016-6
Louisville	0830-0059-3
Memphis	0840-0003-9
Miami	0660-0010-9
Minneapolis	0910-0008-0
Nashville	0640-0010-1
New Orleans	0650-0021-0
New York	0210-0120-8
Oklahoma City	1030-0024-0
Omaha	1040-0012-6
Philadelphia	0310-0004-0
Pittsburgh	0430-0030-0
Portland	1230-0001-3
Richmond	0510-0003-3
Salt Lake City	1240-0031-3
San Antonio	1140-0072-1
San Francisco	1210-0037-4
Seattle	1250-0001-1
St. Louis	0810-0004-5

Member Bank Agreement Form

(Date)

FEDERAL RESERVE BANK OF NEW YORK
33 Liberty Street
New York, New York 10045

or

BUFFALO BRANCH
FEDERAL RESERVE BANK OF
NEW YORK
160 Delaware Avenue
Buffalo, New York 14240

Attention: Collection Division — Head Office
(Collection, Loans, and Fiscal Agency Div. — Buffalo Branch)

In order to expedite the payment of corporate and municipal coupons we agree to the terms and conditions set forth in Appendix C of your Operating Circular No. 8, regarding the payment of coupons. We authorize you to charge or credit our account on your books and to make other appropriate adjustments in connection with the presentment or return of coupons payable by us.

.....
[Name of member bank]

By:
(Authorized signature)

.....
(Title)