

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **10605**
December 29, 1992]

CHECK COLLECTION: SUPPLEMENT TO OPERATING CIRCULAR NO. 4

- **Collection of Canadian Checks**
- **Adjustments and Other Matters**

*To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:*

Enclosed is a copy of the Fourth Supplement, effective January 1, 1993, to this Bank's Operating Circular No. 4, "Collection of Cash Items and Returned Checks." The changes effected by the Supplement relate to the collection of foreign checks, check adjustments, and other matters.

Collection of Canadian Checks

This Bank will offer to depository institutions in the Buffalo Branch territory a Canadian check collection service. **The service is targeted for implementation on February 1, 1993.**

The amendments to the Operating Circular specify the provisions in the Operating Circular that apply to this service and describe how credit will be made available for these items. The Buffalo Branch is preparing a "Guide to Canadian Check Services" that will provide more details about the service. Initially, the service will only be available for items deposited with the Buffalo Branch, but the service may be expanded to other offices at a later time if circumstances warrant.

Questions about the service may be directed to Robert J. McDonnell of the Buffalo Branch at (716) 849-5022.

Adjustments and Other Matters

Other amendments in this Supplement clarify the procedures for handling photocopies of checks, returned checks for which the depository bank is unknown, and returned checks that qualify for automated processing. These changes do not involve any substantial impact on depository institutions and are largely clarifying in nature.

This Supplement also removes from Operating Circular No. 4 the list of mandatory nonstandard holidays previously contained in paragraph 80. The list of holidays changes from time to time and is published in the Interdistrict Check Manual which is distributed twice yearly. Copies of the Interdistrict Check Manual are available from an account manager in the Bank Services Office at (212) 720-6600, or in Buffalo at (716) 849-5085.

(OVER)

Questions regarding the Fourth Supplement may be directed to one of the following Check officers at your local Federal Reserve Office:

New York Head Office

Matthew J. Puglisi, Manager
Check Services Department
(212) 720-6551

Buffalo Branch

Robert J. McDonnell,
Operations Officer
(716) 849-5022

**East Rutherford Operations Center (ERO)
(Formerly the Cranford Office)**

Fred A. Denesevich,
Regional Manager
(201) 531-3430

Jericho Office

Anthony N. Sagliano,
Regional Manager
(516) 997-4569

Utica Office

Angus J. Kennedy,
Regional Manager
(315) 768-2220

E. GERALD CORRIGAN,
President.

**FEDERAL RESERVE BANK
OF NEW YORK**

**Fourth Supplement to
Operating Circular No. 4**
(Revised effective Sept. 4, 1988)
Effective January 1, 1993

**COLLECTION OF CASH ITEMS
AND RETURNED CHECKS**

*To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:*

Effective January 1, 1993, this Bank's Operating Circular No. 4 is amended as follows:

I. Amendments Regarding Foreign Cash Items

1. Paragraph 1 is amended by redesignating the existing paragraph as "1.(a)" and adding the following:

(b) This circular, however, is not binding outside of a State on a bank, acting as a subsequent collecting bank or paying bank, to which a cash item payable outside a State (a "foreign cash item") is presented or sent. For example, paragraphs 23 through 28 regarding delivery, 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 disputed return procedure described in paragraphs 48-50, the rules on notice of nonpayment in paragraphs 51-63, and the handling of photocopies as cash items and returned checks described in paragraphs 69-73 and 76 do not apply to and are not available for a foreign cash item. A Reserve Bank may further modify the application of this circular to a foreign cash item in an agreement with a subsequent collecting bank.

2. Paragraph 5 is amended by deleting the word "and" at the end of subparagraph b., by deleting the period at the end of subparagraph c. and replacing it with "; and" and by adding the following subparagraph:

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. Detailed information on Canadian items is contained in our "Guide to Canadian Check Services" which is available on request.

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3. Paragraph 7, subparagraph d., is amended by inserting the following immediately prior to the semicolon: "or if the item is a foreign cash item that we are willing to handle as a cash item".

4. Paragraph 7, subparagraph e., is revised to read as follows:

- e. The item, other than a foreign cash item that we are willing to handle as a cash 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 in (1) the same Reserve Bank check processing region as, and (2) a Reserve Bank availability zone that provides the same (or slower) availability than, the address associated with the routing number in magnetic ink on the item; or

5. Paragraph 7, subparagraph f., is amended by inserting the following immediately prior to the period: "or when the item is a foreign cash item that we are willing to handle as a cash item".

6. Paragraph 13 is amended by inserting the following sentence prior to the last sentence: "We also reserve the right to require that foreign cash items payable in U.S. funds be separately sorted from foreign cash items payable in other than U.S. funds."

7. Paragraph 19 is amended by adding the following new subparagraph:

Credit for Foreign Cash Items

We give credit for a foreign cash item in U.S. funds. For an item payable in U.S. funds, we give deferred credit for a forward item, and we charge for a return item, the full face amount of the item. For an item payable in other than U.S. funds, we give deferred credit for a forward item at the exchange rate applicable on the date that we, or another Reserve Bank, deliver the item to a foreign subsequent collecting bank, and we charge for a return item at the exchange rate applicable at the time of return. We defer credit in accordance with our availability schedule and may further defer credit because of transportation, weather, or other delays, and because of differing holiday schedules in the United States and the country in which the item is payable. In handling a foreign cash item, we act solely as agent for collection. Our sender bears all risk of loss arising from changes in exchange rates during the processing of a foreign cash item or return item. Our agreements with foreign subsequent collecting banks are available on request. Senders should recognize that foreign cash items may take substantially longer to return than items payable in the United States because of the arrangements we have made to collect the items and because foreign law may permit later return.

8. Paragraph 34 is amended by adding the following sentence at the end of that paragraph:

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 circular.

II. Amendments Regarding Adjustments and Other Matters

1. Paragraph 28 is amended by deleting the second sentence and substituting the following in its place:

A list of standard Reserve Bank holidays is set forth in paragraph 79 of this circular. A list of other holidays that are not considered voluntary ("mandatory nonstandard holidays") is published separately from time to time.

2. Paragraph 37A is added following paragraph 37 as follows:

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 Sections 229.30(b) or 229.31(b) of Regulation CC. The check must not be sent as a qualified returned check.

3. Paragraph 39 is revised to read as follows:

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 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 to handle a non-machineable 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 incurred by us (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.

4. Paragraph 70 is revised to read as follows:

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 (6) 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.

5. Paragraph 73 is revised by deleting the third sentence and revising the fourth sentence to read as follows:

We handle without entry a report of a missing or destroyed cash item received after the time set forth in paragraph 67.

6. Paragraph 73A is added following paragraph 73 as follows:

73A. If a paying or depository 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 71(b) 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 71(b) for both items.

7. Paragraph 76 is amended by revising the fourth sentence as follows: "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."

8. Paragraph 76A is added following paragraph 76 as follows:

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 Return, 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 (6) 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 it 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.

9. Paragraph 80 is amended to read as follows:

80. As provided in Section 210.9(a)(2) of Regulation J and Paragraph 28 of our Operating Circular No. 4, we charge paying banks for cash items made available on a day on which the paying bank closes voluntarily, unless banks compensate us for the value of the float associated with such items. We publish separately from time to time a list of mandatory nonstandard holidays (i.e., holidays, other than standard Reserve Bank holidays, observed by banks in various States but not considered voluntary.)

E. GERALD CORRIGAN,
President.