Anatomy of a substitute check

**Forward Substitute Check–Front** (Figure 5)

- Creating Institution Routing Number & Creation Date
- Original Truncating Institution
- Original Scanned Front Image
- Optional Security Feature Area
- Initial BOFD Endorsement Printed on Original Substitute Check
- Subsequent Endorsements Printed on Original Substitute Check
- Return Substitute Check Identifier
- Return Substitution Check
- MICR Line from Original Check
- Return Qualification Strip with BOFD Routing Number and Dollar Amount
- Optional Security Feature Area

**Forward Substitute Check–Back** (Figure 6)

- Creating Institution Routing Number & Creation Date
- Original Truncating Institution
- Original Scanned Back Image
- Optional Security Feature Area
- Initial BOFD Endorsement Printed on Original Substitute Check for Return
- Subsequent Endorsements Printed on Original Substitute Check for Return
- Return Substitute Check Identifier
- Return Substitution Check
- MICR Line from Original Check

**Return Substitute Check–Front** (Figure 10)

- Return Substitute Check Identifier
- Return Substitution Check
- MICR Line from Original Check

**Return Substitute Check–Back** (Figure 11)

- Return Substitute Check Identifier
- Return Substitution Check
- MICR Line from Original Check
- Optional Security Feature Area
- Subsequent Endorsements Printed on Original Substitute Check

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### Understanding Check 21 and what you can expect from this new law

**Financial institutions will be looking for new solutions as they strive to make the most out of the Check Clearing for the 21st Century Act (Check 21). And the Federal Reserve will be ready to help.**

The Federal Reserve has a long history of helping financial institutions capitalize on the efficiencies associated with electronic check presentment, truncation and image services. You can trust that our tradition of quality, stability and customer service will continue with preparations for Check 21.

“We’re excited about the near and long-term potential of this new law,” says Fred Herr, Senior Vice President, Retail Payments Office at the Federal Reserve Bank of Atlanta. He believes that Check 21 will spur the use of new technologies that will improve the efficiency and reduce the cost of the nation’s check collection system, and provide better services to customers for years to come.

The first challenge is to understand Check 21. Here are some commonly asked questions and answers:

- **What is Check 21?** Check 21 is designed to foster innovation in the payments system and to enhance its efficiency by reducing some of the legal impediments to check truncation.

- **When will Check 21 take effect?** Signed into law on October 28, 2000, Check 21 will become effective on October 28, 2004.

- **What does Check 21 authorize?** Check 21 allows the use of a new instrument called a substitute check. The substitute check is a reproduction of the original check that meets the legal requirements of the Act and can be processed just like the original paper document.

- **What are the requirements of Check 21?**
  - Check 21 requires financial institutions to accept a substitute check from a presenting institute and grant it equivalent status as the original check, if the substitute check meets prescribed requirements.
  - Check 21 requires a reconverting bank to meet the warranties and indemnities enacted through the legislation and subsequent regulations.
  - Check 21 requires financial institutions to provide education to individual consumers on substitute checks and consumer rights.

- **How is the Federal Reserve preparing for Check 21?**
  - The Federal Reserve is taking steps to help meet the changing needs of financial institutions. Initiatives include:
    - Completing Check Modernization, which institutes: standard platforms nationwide for check processing and adjustments; a national FedImage® Services archive; and robust online check services via FedLine® Web.
  - Taking a leadership role in forging interoperability standards within the industry.
  - Designing products that allow financial institutions to take advantage of the opportunities brought by Check 21.

In addition to the Reserve Banks’ preparations to accommodate Check 21, the Federal Reserve Board is working to develop appropriate communications and safe harbor practices to support financial institutions’ requirement to provide consumer education about Check 21.

In late December 2003, the Board released for comment, proposed rule changes to amend Regulation CC and its commentary to implement Check 21. These proposed amendments:

- Outline the requirements of Check 21 that apply to financial institutions.
- Provide a model disclosure and model notices relating to substitute checks.
- Set forth bank endorsement and identification requirements for substitute checks.
- Clarify some existing provisions of the rule and commentary.

Comments on the proposed rule are due on March 12, 2004.