



Federal Reserve Banks

Operating Circular No. 3

COLLECTION OF CASH ITEMS AND RETURNED CHECKS

Effective November 15, 2021

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1.0 General

- 1.1 This Operating Circular and its appendices, (the "Circular") govern the details of the Reserve Banks' handling of cash items and returned checks. The Circular applies to each item that we handle for forward collection and to each returned check that we handle for return. The Circular classifies cash items and non-cash items; sets forth terms of service; provides instructions for sending, paying, collecting, returning, and depository banks for sending items to us and for handling and paying items received from us; establishes terms governing adjustments on the Reserve Banks' books, and provides for instructions by an Administrative Reserve Bank to other Reserve Banks and to depository institutions.

- 1.2 Subpart A of Regulation J (12 CFR 210, Subpart A; "Regulation J") of the Board of Governors of the Federal Reserve System ("Board"), Subparts C and D of Regulation CC (12 CFR 229, Subparts C and D; "Regulation CC") of the Board, and this Circular, its appendices, our Adjustments Quick Reference Guide, and our time and fee schedules apply to the handling of all cash items that we accept for forward collection and all returned checks that we accept for return. This Circular also covers related services we provide. This Circular is issued pursuant to Sections 4, 13, 14(e), and 16 of the Federal Reserve Act, the Expedited Funds Availability Act, the Check Clearing for the 21st Century Act ("Check 21 Act") and related statutes and in conformity with Regulations J and CC. It is binding on each party interested in an item we handle. To the full extent permitted by law, the provisions of this Circular vary by agreement any inconsistent provisions of section 8 of the Check 21 Act, the Uniform Commercial Code or of Regulation CC, but only to the extent of the inconsistency.

- 1.3 Each Reserve Bank has issued a Circular identical to this one.

- 1.4 The definitions of terms set forth or incorporated in Regulation J and Regulation CC, apply in this Circular, except as otherwise provided in this Circular. For purposes of this Circular:
 - a) item includes a cash item and a returned check but does not include an electronically-created item as defined in Regulation CC;

 - b) cash item does not include a returned check;

 - c) returned check includes a cash item, and a check as defined in Regulation CC, that is returned by a paying bank; and

- d) electronic item means an electronic check or electronic returned check.

2.0 Items We Handle As Cash Items

2.1 A sender may deposit the following items with us by sending such items to the Reserve Bank processing office designated by us for handling as cash items, unless otherwise provided in this Circular:

- a) Checks, including postdated checks, payable in a State,¹ and collectible at par;
- b) Government checks and postal money orders;²
- c) Other demand items, collectible at par in funds acceptable to the paying bank's Administrative Reserve Bank;
- d) Demand items payable outside of a State collectible at par in funds acceptable to the last collecting Reserve Bank, that we are willing to accept as cash items ("foreign cash items");³
- e) Electronic checks and electronic returned checks that conform to the requirements of this Circular and the technical requirements of the Reserve Bank as amended from time to time; and
- f) Substitute checks.

2.2 When we accept an instrument for credit to ourselves or another Reserve Bank, we handle the instrument as a cash item if it qualifies as a cash item even though it is

¹ Under Section 210.2 of Regulation J, "State" means a State of the United States, the District of Columbia, Puerto Rico, or a territory, possession or dependency of the United States. The Virgin Islands and Puerto Rico are deemed to be in the Second Federal Reserve District, and Guam, American Samoa and the Northern Mariana Islands are deemed to be in the Twelfth Federal Reserve District. Regulation J, note 1.

² Provisions governing the collection of Government checks and postal money orders are contained in Appendices A and B of this Circular.

³ Provisions governing the collection of foreign cash items, including Canadian postal money orders payable in U.S. funds, are contained in Appendix D of this Circular.

sent to us by a person other than a "sender," as defined in Section 210.2 of Regulation J.

- 2.3** A sender may send certain redeemed savings bonds and saving notes to us as specified in Appendix C. We handle such savings bonds and saving notes according to the terms and conditions of Appendix C, and we treat those savings bonds and notes as cash items only to the extent provided in that Appendix.

3.0 Items We Do Not Handle as Cash Items

- 3.1** A sender should not send to us any item, and we do not undertake to handle an item as a cash item, if:
- a)** The bank on which the item is drawn has declined to pay the item two or more times. For purposes of this subparagraph 3.1(a) only, the term "the item" means a check; any substitute check, electronic check, or ACH entry derived from that check; and any photocopy in lieu of that check;
 - b)** The item includes in the MICR line, a routing number⁴ that has been retired by the American Bankers Association's Registrar of Routing Numbers;
 - c)** A passbook, certificate, or another document is attached to the item;
 - d)** Special instructions, including a request for special advice of payment or dishonor, accompany the item;
 - e)** The item (i) consists of more than a single thickness of paper, (ii) has been physically damaged such that it does not qualify for handling by high-speed check processing equipment, or (iii) has been contaminated by any hazardous substance, but we do handle as a cash item a mutilated, erroneously encoded, or other cash item contained in a carrier that qualifies for handling by high-speed check processing equipment (although cash items in carriers are subject to special requirements spelled out in this Circular), and we handle a photocopy as provided in paragraph 21;
 - f)** The item has not been preprinted or post encoded in accordance with the version of the American National Standard Institute's ("ANSI") standard for

⁴ The term "routing number" means a nine-digit number authorized by the Routing Number Policy of the American Bankers Association.

placement and location of MICR printing currently adopted by the Reserve Banks before we receive it with: (i) the routing number of the paying bank (or nonbank payor), and (ii) the dollar amount of the item (unless the sender has requested a special encoding service we provide). We handle such an item as a cash item, however, when we judge that circumstances justify such handling, and we handle a photocopy as provided in paragraph 21; or

- g)** The item does not (i) bear the routing number of the paying bank in fractional form in the upper right corner in at least 8-point type, or (ii) conform to the dimension specifications of the version of the ANSI standard for placement and location of MICR printing currently adopted by the Reserve Banks (between 2 3/4 and 3 2/3 inches in width, and 6 and 8 3/4 inches in length). We handle such an item as a cash item, however, when we judge that circumstances justify such handling, and we handle a photocopy as provided in paragraph 21.

3.2 We reserve the right to charge back an item by returning it or by rejecting it and making an adjustment for the item if in our discretion we judge that circumstances require that it should not be handled as a cash item.

3.3 Items that we may charge back pursuant to this paragraph include, but are not limited to:

- a)** any item described in paragraph 3.1 above;
- b)** an item payable by, at or through a bank that has been reported closed;
- c)** an item in the amount of \$100,000,000 or more; and
- d)** any items in amounts of less than \$100,000,000 that in our judgment are intended to avoid the \$100,000,000 limit.

3.4 We may, in our discretion, charge back an item pursuant to this paragraph 3.0 regardless of when we determine that the item is a noncash item. We do not have any responsibility for delay in handling as a cash item an item that should not have been sent to us as a cash item.

3.5 A bank that sends to the Reserve Bank any document in a cash letter that is not a cash item indemnifies the Reserve Bank against any damage, loss, or claim that results from the Reserve Bank's processing the item as a cash item.

- 3.6 We also reserve the discretion to charge back a cash letter or return letter that (i) does not conform to the requirements of this Circular; or (ii) contains items that do not conform to the requirements of this Circular that would require a level of manual handling that the Reserve Bank in its discretion regards as being excessive.
- 3.7 We may present or send an item to any branch or office of the bank identified in the MICR line or to any other location permitted by section 229.36 of Regulation CC.
- 3.8 We are unable to present any item to a bank unless it has designated a settlement account as provided in paragraph 13. We may charge back such an item by returning it or by rejecting it and making an adjustment for the item.
- 3.9 We shall not have any liability to any person if we, in our discretion, chargeback any item pursuant to this paragraph 3.

4.0 Definitive Securities; Noncash Items; Electronically-Created Items

- 4.1 Except as specifically provided in Appendix C, the Reserve Banks do not handle definitive securities as cash items. Senders seeking to obtain payment for definitive securities issued by fiscal principals of the Reserve Banks other than those described in Appendix C should contact the issuer of those securities. These senders may refer to the Fedwire Securities Service Issuer Guide maintained on FRBservices.org to identify basic contact information for the Reserve Banks' fiscal principals that issue securities through the Fedwire Securities Service.
- 4.2 A sender must not send a noncash item to a Reserve Bank for payment without an agreement with the Reserve Bank to do so or the Reserve Bank's prior written authorization.
- 4.3 A sender shall not send an electronically-created item to a Reserve Bank.
- 4.4 A sender warrants to us that only the following will be sent to a Reserve Bank, and the Reserve Bank warrants that only the following will be sent to each bank to which we transfer or present:
 - a) items pursuant to paragraph 2 of this Circular; and

b) noncash items we have agreed to handle pursuant to paragraph 4.2 of this Circular.

4.5 A bank indemnifies the Reserve Bank against any damage, loss, or claim that results from the fact that the bank sent to the Reserve Bank any document in a cash letter that is not an item pursuant to paragraph 2 of this Circular or a noncash item we have agreed to handle pursuant to paragraph 4.2 of this Circular.

5.0 Preparation and Handling of Items

5.1 Each item or returned check shall be included in a paper or image cash letter or return cash letter that conforms to the terms set forth in this Circular. The requirements for paper cash letters and paper return letters differ from the requirements for image cash letters and image return letters.

5.2 The Reserve Banks strongly encourage the use of electronic checks and electronic returned checks. Paper checks should be sent to us for collection or return only if an item is not eligible for image processing (e.g. a foreign item) or cannot be processed as an imaged item (e.g. a physically damaged check placed in a carrier envelope).

5.3 The Reserve Bank is not liable for the loss or destruction of an item in the possession of others or in transit. Each sender (or paying or returning bank) must keep records sufficient to permit it to identify its depositor or endorser on a cash item or returned check in case the item is lost or destroyed and charged back to it. A sender (or paying or returning bank) that fails to keep such records is solely responsible for any costs, loss, or damage that results from the loss or destruction of an item in the possession of others or in transit. We do not usually keep copies or descriptions of items. We are not responsible for keeping records of items in end-point-sorted (fine sort) cash letters or return letters that we handle without our indorsement. We have no responsibility for describing a lost or destroyed item that we charge back to a bank, or for maintaining insurance coverage or obtaining reimbursement from another person for a sender's (or paying or returning bank's) costs or other loss, except as provided in Appendix A concerning Government checks.

5.4 A sender (or paying or returning bank) that sends or returns to the Reserve Bank a substitute check or electronic check, or an electronic returned check, must maintain records sufficient to enable the sender (or paying or returning bank) to provide the original check or a sufficient copy of the original check upon request.

5.5 We may require that cash items be separately sorted from returned checks, except as otherwise provided in our procedures. We reserve the right to require banks located in a city, town or similar area to sort, list, and package cash items payable

in the same area according to the office of the paying bank where the items are payable. We may require categories of items to be sent to a specific office of any Reserve Bank. Our time schedules contain other instructions for sorting and listing items.

5.6 Indorsements. All cash items and returned checks sent to us must be indorsed in accordance with the requirements of Section 229.35 of Regulation CC. If we receive a cash item without the sender's indorsement, or a returned check without a returning bank's indorsement, we may (a) present or send the item as if it bore the indorsement, (b) place on the item the missing indorsement and the date we received it, or (c) return the item for proper indorsement. We handle an endpoint-sorted cash letter and return letter without indorsing the items in the letter. We make the warranties stated in Section 210.6(b) of Regulation J by presenting or sending a cash item (and the warranties stated in Section 210.12(e) of Regulation J by sending a returned check), whether or not the item bears our indorsement. Indorsements on electronic checks and electronic returned checks must comply with ANSI standard ANS X9. 100-187, and the Reserve Bank's technical requirements, as amended from time to time.

5.7 Responsibility for Back of Check.

- a) We reserve the right to refuse to accept a deposit of an item if in our judgment the back of the item at the time of the deposit adversely affects our or another bank's ability to indorse the item legibly in accordance with Section 229.35 of Regulation CC. If we do accept the item, the depositor is responsible for the condition of the back of the item, and agrees to indemnify us for any loss or expense incurred by us (including attorneys' fees and expenses of litigation) as a result of the condition of the back of the item at the time of deposit.
- b) A bank issuing a check drawn on this Reserve Bank is responsible for ensuring that the condition of the back of the check when issued does not adversely affect the ability of a bank to indorse the check legibly in accordance with Section 229.35 of Regulation CC. The issuing bank agrees to indemnify us for any loss or expense incurred by us (including attorneys' fees and expenses of litigation) as a result of the condition of the back of the check when issued.

6.0 Image Cash Letters and Image Return Letters

6.1 A sender (or paying or returning bank) may send to the Reserve Bank an "image cash letter" (or an "image return letter") in a file that conforms to ANS X9.100-187 (Specifications for Electronic Exchange of Check and Image Data—Domestic), as adopted and applied by the Federal Reserve Banks from time to time, subject to

the provisions of this Circular. The sender of each item contained in an image cash letter or in an image return letter is the institution identified by the "ECE Institution Routing Number" in the cash letter header record. In the file header record of each file containing an image cash letter or image return letter, the "Immediate Origin Routing Number" must contain a routing number that is identical with that of the institution identified by the "ECE Institution Routing Number" in the cash letter header record of every image cash letter or image return letter contained in the file, unless the Reserve Bank has otherwise agreed in writing.

- 6.2** Files containing image cash letters or image return letters must be transmitted to the Reserve Bank by means of an electronic connection, in accordance with paragraph 23 of this Circular and with Operating Circular 5. An image cash letter or image return letter that is transmitted to us electronically is received by the Reserve Bank when a complete file containing that image cash letter or image return letter has been written on a Reserve Bank electronic storage device in conformity with the Reserve Bank's technical and operational requirements for sending an image cash letter or an image return letter to the Reserve Bank. To meet a Reserve Bank processing deadline with respect to an image cash letter or an image return letter, the entire file containing the image cash letter or image return letter must be received prior to the processing deadline, and the file in which the item is contained must successfully pass the Reserve Bank's edits for conformity with the Reserve Bank's technical requirements.
- 6.3** The Reserve Bank will handle as a cash item an electronic check sent to the Reserve Bank in an image cash letter, or as a returned check an electronic returned check contained in an image return letter, subject to the conditions set forth in this Circular. An image cash letter or image return letter sent to the Reserve Bank may not include any:
- a)** item derived from any item in a carrier envelope;
 - b)** noncash item covered by paragraph 3 of this Circular;
 - c)** foreign item;
 - d)** photocopy of a missing or destroyed item that is submitted to the Reserve Bank pursuant to paragraph 21 of this Circular; or
 - e)** notice in lieu of return that is submitted to the Reserve Bank pursuant to section 229.31(f) or 229.32(d) of Regulation CC.

- 6.4** Wherever this Circular refers to the front or face of a check or the back of a check, as applied to an electronic check or electronic returned check this shall mean the image of the front or face of the check or the image of the back of the check.
- 6.5** We do not have any responsibility for delay in handling an electronic check or electronic returned check that we (or any party to which we transfer, present, or return the item) cannot process because of any defect in the item or the image cash letter or image return letter containing the item, unless the defect was caused by the Reserve Bank. We may, in our discretion, either process or charge back an item or an image cash letter or an image return letter that does not conform to the requirements of this Circular or the Reserve Bank's technical requirements.
- 6.6 Acknowledgements of Files Containing Image Cash Letters and Image Return Letters.** The Reserve Bank will send an acknowledgement to the sender with respect to each file that contains an image cash letter or image return letter that a sender, paying bank, or returning bank delivers or transmits to the Reserve Bank. A positive acknowledgement will be transmitted to the sender, paying bank, or returning bank to indicate that a file passed the Reserve Bank's initial edits. A negative acknowledgement will be transmitted to the sender, paying bank, or returning bank to indicate that a file failed the Reserve Bank's initial edits. If a file fails our initial edits, the Reserve Bank will not give credit to the sender, paying bank, or returning bank for any image cash letter or image return letter contained in that file. The Reserve Bank will send such acknowledgements as provided in paragraph 23 of this Circular, after the Reserve Bank performs the initial edits.
- 6.7 Rejected Electronic Files or Items.**
- a) The Reserve Bank may reject, and charge back our sender for, an electronic file or item that fails our edits.
 - b) Although a file containing an image cash letter or image return letter has passed the Reserve Bank's initial file level edits, any items that fail the Reserve Bank's subsequent item level edits may be rejected and charged back to the sending or returning bank. If any item fails a subsequent edit, the Reserve Bank will credit the sending or returning bank for the amount of the image cash letter(s) or image return letter(s) contained in the file, and will reduce the amount of credit given by the amount of the item that fails the item level edits. A charge back for an item that fails our edits is not subject to the minimum adjustment amount specified in the Check Adjustments Quick Reference Guide.
- 6.8** It is the responsibility of the sender, paying bank, or returning bank to review the Reserve Bank's acknowledgements and accounting entries posted to the bank's Federal Reserve account. The sender, paying bank, or returning bank is

responsible for ascertaining that the acknowledgements that it receives and accounting entries posted to the bank's Federal Reserve account properly account for every item the sender, paying bank, or returning bank has sent to the Reserve Bank. It is the responsibility of the sender, paying bank, or returning bank to take whatever action is appropriate when it receives a negative acknowledgement with respect to a file containing an image cash letter or image return letter or a charge back with respect to an item that fails the Reserve Bank's item level edits.

- 6.9** The Reserve Bank is not responsible for items, image cash letters or image return letters that are lost in transmission.

7.0 Paper Cash Letters and Return Letters

All paper cash items and returned checks sent to us may be listed by amount without further description in tape listings accompanying cash letters or return letters. All letters and tape listings should be dated and identified with the sender's (or paying or returning bank's) name and routing number. The following kinds of items may be sent to the Reserve Bank only in a specifically identified cash letter containing only items of the kinds listed here:

- a)** any item in a carrier envelope;
- b)** a foreign item;
- c)** a photocopy of a lost or destroyed item that is submitted to the Reserve Bank pursuant to paragraph 21 of this Circular; or
- d)** a notice in lieu of return that is submitted to the Reserve Bank pursuant to section 229.31(f) or 229.32(d) of Regulation CC.

A bank that sends to the Reserve Bank any item of one of the kinds described in the preceding sentence in a cash letter that is not specifically identified as required, indemnifies that Reserve Bank against any damage, loss, or claim that results from the sender's failure to segregate the item as required by this paragraph.

8.0 Sending of Items Only to Designated Reserve Bank

- 8.1** Except as specifically provided elsewhere in this Circular, a sender (or a paying or returning bank) may send a cash item (or returned check) only to a designated Reserve Bank as directed by its Administrative Reserve Bank. The sender's

Administrative Reserve Bank is deemed to have first handled a cash item sent by the sender to another Reserve Bank, under Section 210.4(b) of Regulation J. The paying bank's or returning bank's Administrative Reserve Bank is deemed to have first handled a returned check sent by the paying or returning bank to another Reserve Bank under Section 210.12(b) of Regulation J.

- 8.2** A sender's (or a paying or returning bank's) Administrative Reserve Bank may instruct another Reserve Bank, with respect to actions by the other Reserve Bank that may affect the Administrative Reserve Bank, relating to cash items and returned checks.

9.0 Time Schedules and Availability of Credit

For all items that we accept as cash items or returned checks, the sender's (or the paying or returning bank's) Administrative Reserve Bank gives credit at the times for posting transactions provided in the Federal Reserve Policy on Payment System Risk⁵ and our published availability schedules.

10.0 Routing Numbers; Records

- 10.1** We may present or send a cash item, under Section 210.6(a)(3) of Regulation J, on the basis of any routing number or other designation of a paying bank appearing on the item when we receive it. We are not responsible for any delay resulting from our acting on a designation of a paying bank, whether inscribed by magnetic ink or other means, even if the designation is inconsistent with another designation of the paying bank on the item.
- 10.2** If in our judgment processing of an unencoded or misencoded cash item would be improved, we may encode on the item or otherwise, (a) the amount of the item, or (b) the routing number of the paying bank (or nonbank payor). The sender assumes the risk of loss resulting from any delay caused by our inscribing the item and presenting or sending it accordingly, unless the sender has requested a special encoding service we provide.
- 10.3** In addition to the recordkeeping provisions of this Circular, Treasury regulations (31 CFR Part 103) require that banks keep legible records of many items. These regulations apply whether or not the item is capable of being photocopied.

⁵ See "[Federal Reserve Policy Statement on Payment System Risk](#)," Fed. Res. Reg. Svc. ¶ 9-1000.

11.0 Shipment and Presentment

- 11.1** We do not by this Circular or otherwise agree to present or send a cash item earlier than is required by Regulation J or the Uniform Commercial Code. We have no responsibility for giving notice to a sender of anticipated delays in presentment or return of cash items unless the delay is expected to involve at least ten paying banks and to last at least three business days.
- 11.2** We may present or send a cash item either by physical delivery of the cash item, or by any means of electronic presentment to which the paying bank has agreed subject to the terms of this Circular.
- 11.3 Designation of Electronic Presentment and Return Points.** By agreeing to receive electronic presentment of items and/or electronic returns, a bank designates its presentment point for electronic items and for items presented by MICR presentment, and its return point for electronic returned checks, as follows:
- a) For a bank that uses an internet-based connection to the Reserve Bank's systems for receiving image cash letters or image return letters, the designated presentment point for all items presented electronically, and the designated return point for electronic items contained in image return letters, is any Reserve Bank electronic storage device from which the bank is authorized to retrieve items or electronic returned checks by means of an electronic connection to the Reserve Bank's systems, as provided in this Circular and OC 5.
 - b) For a bank that uses any other kind of electronic connection to the Reserve Bank's systems for receiving image cash letters or image return letters, the designated presentment point for all items presented electronically, and the designated return point for electronic items contained in image return letters, is any of the bank's electronic systems or devices to which the Reserve Bank is authorized to transmit items or electronic returned checks by means of an electronic connection to the Reserve Bank's systems, as provided in this Circular and OC 5.
 - c) Notwithstanding any other provision in this paragraph, the Reserve Bank may agree with a bank in writing to designate presentment or return points that specify an alternative time, place, and/or manner of presentment or return of items that the Reserve Bank sends to such bank.

- 11.4 Presentment by Physical Delivery.** We may present items at any location contemplated by section 229.36 of Regulation CC. A paying bank may arrange to

pick up cash items at our premises. The paying bank is considered to receive a cash item when it is delivered as requested, or when it is made available for pickup as arranged, whether or not the paying bank picks the item up at that time.

- 11.5** We may commingle all items that are sent to or picked up by an agent on behalf of more than one bank, unless one of the banks requests a separate sort of its items.
- 11.6 Image Cash Letter Containing Both Data and Images.** The Reserve Bank may present an electronic check to a paying bank that agrees by transmitting or delivering to the paying bank an image cash letter containing the item. Presentment occurs when the image cash letter is (i) transmitted to the paying bank, or (ii) written on the Reserve Bank's data storage device and in a form that is available for retrieval by the paying bank.
- 11.7 Image Cash Letter with Informational Images to Follow.** The Reserve Bank may present an item to a paying bank that agrees by transmitting to the paying bank or writing on the Reserve Bank's data storage device in a form that is available for retrieval by the paying bank an image cash letter that contains only electronic data related to the item and (b) subsequently (i) transmitting to the paying bank a second, informational file that includes an electronic image of the item, or (ii) writing on the Reserve Bank's data storage device in a form that is available for retrieval by the paying bank a second, informational file that includes an electronic image of the item. Presentment occurs when the initial image cash letter containing electronic data related to the item is (i) transmitted to the paying bank or (ii) written on the Reserve Bank's data storage device and in a form that is available for retrieval by the paying bank.
- 11.8 SDS Items Presented to a Paying Bank that accepts electronic presentment.** If a bank agrees to accept electronic presentment and also designates the Reserve Bank as its presentment point for Same Day Settlement items under Appendix F, presentment of same day settlement items drawn on that bank occurs when the same day settlement items are physically delivered to the Reserve Bank. The Reserve Bank provides to the paying bank an information-only electronic file. Our presentment point services are subject to the terms and conditions set forth in Appendix F.
- 11.9 Paying Bank's Responsibilities.**
- a) If a bank is unable to process an image cash letter, the bank must notify the Reserve Bank by no later than 5:00 P.M. local time at the Reserve Bank on the Reserve Bank's next banking day after the Reserve Bank has transmitted or delivered the image cash letter, that the bank has received a file that it cannot process.

- b) Upon request by the paying bank received prior to 5:00 P.M. local time at the Reserve Bank on the Reserve Bank's second banking day after the Reserve Bank has sent an image cash letter to the paying bank, the Reserve Bank will resend an image cash letter. By requesting that the Reserve Bank resend an image cash letter, the requesting bank indemnifies the Reserve Bank against any damage, loss, or claim that results, except for any damage, loss, or claim resulting from the Reserve Bank's failure to act in good faith or its lack of ordinary care.

11.10 The Reserve Bank does not warrant that an image cash letter or item that we transmit or deliver conforms to any technical or operational requirements other than the Reserve Bank's requirements. If an image cash letter or item that we have transmitted or delivered complies with our technical and operational requirements, the Reserve Bank is not responsible for any loss, injury, damage, claim, error, or delay that results if a bank is unable to process the image cash letter or item.

11.11 Alternative File Formats for Presentment or Return.

- a) The Reserve Bank may from time to time agree to present items and/or to return checks to a paying bank or depository bank in a file format other than the ANS X9.100-187. Such alternative formats include, but are not limited to, the PDF file format.
- b) An image plus data, captured from a check, that the Reserve Bank presents or returns to a paying bank or depository bank pursuant to an agreement to use an alternative file format, is an electronic check or an electronic returned check for purposes of this Circular.

12.0 Settlement for Cash Letters

12.1 A paying bank must settle with its Administrative Reserve Bank in accordance with Section 210.9(b) of Regulation J for all cash items that it receives⁶ from us and does not return within the deadline in that section. Settlement shall be made at par and by:

⁶ A paying bank is deemed to receive a cash item on its next banking day if it receives the item:

- (1) on a day other than a banking day for it; or
- (2) on a banking day for it, but after a cut-off hour it has established in accordance with the Uniform Commercial Code.

- a) a debit to an account on the books of a Reserve Bank; or
- b) in the discretion of the paying bank's Administrative Reserve Bank, any other form of payment.

12.2 The proceeds of any settlement must be available to the paying bank's Administrative Reserve Bank in accordance with section 210.9(b) of Regulation J or by such later time for posting the transaction as may be set forth in the Federal Reserve Policy on Payment System Risk.

12.3 Paying Bank Closes Voluntarily. If a paying bank closes voluntarily so that it does not receive a cash item on a day that is a banking day for a Reserve Bank, and a Reserve Bank makes a cash item available to the paying bank on that day, Section 210.9(b)(3) of Regulation J defines the paying bank's obligations with respect to settlement for the item.

12.4 Reserve Bank Closed. If a paying bank receives an item from a Reserve Bank on a banking day that is not a banking day for the Reserve Bank, the paying bank shall settle for or return the item in accordance with Section 210.9(b)(4) of Regulation J.

12.5 A subsequent collecting bank (other than a Reserve Bank) that receives settlement for a cash item shall make the proceeds available to the bank's Administrative Reserve Bank by the close of the Reserve Bank's banking day on the day the subsequent collecting bank receives the proceeds.

13.0 Designation of Settlement Account

13.1 Which banks must designate a settlement account

- a) Before sending a cash item or returned check to, or receiving a cash item from any Reserve Bank, a bank must designate to its Administrative Reserve Bank an account(s) on a Reserve Bank's books to be used for settlement of cash items and returned checks, and identify the transactions to be settled through the account(s).
- b) Each bank that agrees to use any service provided by the Reserve Bank pursuant to this Operating Circular or any of its appendices must also designate an account to be used for the settlement of cash items and returned checks and for any transaction fees.

- c) If a bank maintains an account with a Reserve Bank, the bank's Reserve Bank account is the bank's designated settlement account unless the bank designates another account in accordance with this Circular.
 - d) If the bank designates a correspondent bank's account as the settlement account, the correspondent bank must agree to that designation. See Operating Circular 1, Appendix 2. If the account is on the books of another Reserve Bank, the other Reserve Bank must not object to the designation. A bank remains responsible under Regulations J and CC and our Circular for all transactions notwithstanding that it has designated a settlement account, including a settlement account maintained by a correspondent bank.
- 13.2** A settlement designation supersedes all prior inconsistent settlement designations. A designation of a settlement account in effect on the effective date of this Circular revision remains in effect until superseded, but is subject to the terms of this Circular beginning on that effective date.
- 13.3** By designating a settlement account, the sender or bank (or a correspondent bank, if any) authorizes the Reserve Bank that holds the account: (1) to debit to the account the amount of all cash letters, return letters and items received by the bank from a Reserve Bank; (2) to credit to the account the amount of all cash letters, return letters and items sent by the sender to a Reserve Bank; and (3) to debit and credit to the account the amount of all other transactions (including fees) with respect to cash letters, return letters and items, all in accordance with Regulations J and CC and the Reserve Banks' Circular.
- 13.4** The sender, bank or correspondent bank agrees to maintain to its credit in its account, consistent with Regulation J, a balance of actually and finally collected funds sufficient to cover charges under this Circular and all other charges to the account. A Reserve Bank assumes no responsibility for any obligations or rights of a sender (or a paying, collecting, returning or depositary bank) with respect to its correspondent bank, if any.
- 13.5** The sender (or a paying, returning or depositary bank) may terminate a settlement designation of a settlement account (other than its own Reserve Bank account) by notice to the Reserve Bank that holds the account (and the Reserve Bank may terminate a settlement designation by notice to the sender or bank) effective five banking days after receipt of the notice or on a subsequent date specified in the notice. A correspondent bank may terminate a settlement designation by notice to the Reserve Bank that holds the settlement account effective on the banking day following the banking day of receipt of the notice by the Reserve Bank (or on a subsequent date specified in the notice). Such termination shall not affect the Reserve Bank's right to make entries with respect to cash letters, return letters or items processed by a Reserve Bank on the banking day of receipt of the notice.

14.0 Missent Cash Items

- 14.1** Occasionally we send to a bank, on the understanding that it is the paying bank, an item that does not contain either its routing number or its name as paying bank, and the bank determines not to pay the item. If such an item is in paper form, the bank shall promptly send the item back to us in a specially designated “Not Our Item” cash letter or return letter with a request for credit or refund, and we will promptly grant the credit or refund. Alternatively, if the item is in electronic form, the bank shall request an adjustment as provided in paragraph 20 below. The adjustment request must include the item if it is available, or an image of the front and back of the item and all electronic data that the Reserve Bank sent to the bank related to the item.
- 14.2** An item that contains the routing number of a bank is considered to be payable by the bank, even if the item does not contain the name of the bank or contains the name of another bank. Therefore, a bank that receives a cash item on which it is identified only by routing number shall handle that item as a cash item drawn on it, even if the bank determines that the item was not drawn by a customer of the bank. When the bank returns such an item, the bank is encouraged to take appropriate measures to prevent redelivery of the item to itself.

15.0 Returned Checks

- 15.1** A paying bank may return a cash item to us for which it has previously made settlement to a Reserve Bank only if it returns the item within the deadline of Section 210.12(a) of Regulation J, Section 229.31(g) of Regulation CC and the Uniform Commercial Code. A paying or returning bank may send to us a returned check that a Reserve Bank did not handle for forward collection only if it sends the returned check within the deadline of Regulation CC and the Uniform Commercial Code. A bank shall not intermingle returned checks with cash items except as specifically permitted by the Reserve Bank. The following kinds of items may not be sent to the Reserve Bank in an image return letter and may be sent to the Reserve Bank only in a paper return letter containing only items of the kinds listed here:
- a)** any item in a carrier envelope;
 - b)** any noncash item covered by paragraph 3 or 4 of this Circular;
 - c)** a foreign item;

- d) a photocopy of a lost or destroyed item that is submitted to the Reserve Bank pursuant to section 21 of this Circular; or
- e) a notice in lieu of return that is submitted to the Reserve Bank pursuant to section 229.31(f) or 229.32(d) of Regulation CC.

A bank that sends to the Reserve Bank any item of one of the kinds described in the preceding sentence in a paper return letter that is not specifically identified as required, indemnifies that Reserve Bank against any damage, loss, or claim that results from the sender's failure to segregate the item as required by this paragraph.

- 15.2** A paying or returning bank that sends a returned check to us and receives settlement for the returned check (a) warrants to us and subsequent parties that its return of the check was within the deadline of Regulations CC and J and the Uniform Commercial Code, and (b) is liable to us for any loss or expense incurred by us (including attorneys' fees and expenses of litigation) as a result of its breach of this warranty. The paying or returning bank also makes the other warranties and agreements set forth in Section 210.12 of Regulation J and in Section 229.34 of Regulation CC, and if the return item is a substitute check, in Sections 229.52 and 229.53 of Regulation CC.
- 15.3** We do not by this Circular, or otherwise, agree to handle a returned check more expeditiously than is required by Section 229.32 of Regulation CC. We have no responsibility for giving notice of anticipated delays in return of returned checks unless the delay is expected to involve at least ten depository banks and to last at least three business days.
- 15.4** A paying or returning bank that is unable to identify the depository bank on a returned check may send the check to us in accordance with Sections 229.31(a)(2) or 229.32(a)(2) of Regulation CC, if it received the returned check from us. Such a check must not be sent as a qualified returned check, unless we sent the item to the paying or returning bank as an electronic item. In that case only, the item may be qualified to us in an image return letter.
- 15.5 Preparation of Returned Checks.** A paying bank shall clearly indicate that a returned check is a return and the reason for the return as provided as provided in Section 229.31(e) of Regulation CC. We may handle the returned check even if it does not indicate the reason for nonpayment. We reserve the right to send back to the paying or returning bank a returned check if the depository bank has been reported closed. Paragraphs 5 through 7 and this paragraph 15 apply to the preparation and sending of, and the availability of credit for, returned checks.

15.6 Qualified Returned Checks; Identification of Depository Bank. We may rely on:

- a) the amount of a qualified returned check encoded in the item;
- b) the identification of an item as a qualified returned check by a '2' or a '5' encoded in magnetic ink in position 44 of the MICR line; and
- c) the identification of the depository bank by routing number on a qualified returned check; whether or not the amount or identification is consistent with any other information on the returned check. We reserve the right to test whether a qualified returned check is properly machine readable, and to handle a non-machineable item as a raw return or to return it to the paying or returning bank. 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 qualified returned check that is not able to be processed on our automated check processing equipment or that does not pass our testing procedures.

15.7 Shipment of Paper Returned Checks to Depository Bank. We send returned checks to a depository bank at the same location and under the same terms as we send cash items payable by the bank, except as follows. If we do not usually send cash items to the bank for payment, we send returned checks to the depository bank in accordance with Section 229.32(a) of Regulation CC, which may include mail. If a depository bank requests shipment of returned checks to a location other than where we send cash items, or other than by mail, we will arrange shipment as otherwise agreed with the depository bank. A depository bank may also arrange to pick up returned checks at our premises.

15.8 The Reserve Banks may send returned checks to a depository bank or its agent separately sorted from cash items, except as otherwise provided in the Reserve Banks' procedures.

15.9 Electronic Return of an Image Return Letter. By agreement, the Reserve Bank may return an item to a depository bank, or prior collecting bank by returning an image return letter containing an electronic returned check. The return to the depository bank or prior collecting bank occurs when the image return letter is (i) transmitted to the depository bank or prior collecting bank, or (ii) written on the Reserve Bank's data storage device and in a form that is available for review or retrieval by the depository bank or prior collecting bank.

15.10 Responsibilities of Depository Bank or Prior Collecting Bank.

- a) If a depository bank or prior collecting bank is unable to process an image return letter or electronic returned check the bank must notify the Reserve Bank by no later than 5:00 P.M. local time at the Reserve Bank on the Reserve Bank's next banking day after the Reserve Bank has transmitted or delivered the image return letter or electronic returned check that the bank has received a file or item that it cannot process.
- b) Upon request by the depository bank or prior collecting bank received prior to 5:00 P.M. local time at the Reserve Bank on the Reserve Bank's second banking day after the Reserve Bank has sent an image return letter, the Reserve Bank will resend an image return letter. By requesting that the Reserve Bank resend an image letter, the requesting bank indemnifies the Reserve Bank against any damage, loss, or claim that results, except for any damage, loss, or claim resulting from the Reserve Bank's lack of good faith or ordinary care.

15.11 The Reserve Bank does not warrant that an image return letter or electronic returned check that we transmit or deliver conforms to any technical or operational requirements other than the Reserve Bank's requirements. If an image return letter or electronic returned check that we have transmitted or delivered complies with our technical and operational requirements, the Reserve Bank is not responsible for any loss, injury, damage, claim, error, or delay that results if a bank is unable to process the image return letter or electronic returned check.

15.12 Payment for Returned Checks. A depository bank must pay its Administrative Reserve Bank in accordance with Section 229.33(e) of Regulation CC for a returned check that it has received from us.⁷ The proceeds of payment must be available to the depository bank's Administrative Reserve Bank in accordance with Sections 210.9(b) and 210.12(i) of Regulation J or by such later time for posting the transaction as may be set forth in the Federal Reserve Policy on Payment System Risk, even if the depository bank receives the returned checks at a location and time different from the location and time where the depository bank receives cash items during forward collection.

⁷ A depository bank is deemed to receive a returned check on its next banking day if it receives the item;

- (1) on a day other than a banking day for it; or
- (2) on a banking day for it but after its regular banking hours.

15.13 A depository bank shall settle for returned checks in the same manner it settles for cash items it receives as paying bank. If we do not usually send cash items to the depository bank for payment, the depository bank shall settle by:

- a) debit to an account on a Reserve Bank's books;
- b) in the discretion of the depository bank's Administrative Reserve Bank, any other form of settlement.

Adjustments for returned checks are governed by paragraph 20 of this Circular.

15.14 A subsequent returning bank (other than a Reserve Bank) that is paid for a returned check shall make the proceeds available to the bank's Administrative Reserve Bank by the close of our banking day on the day the subsequent returning bank receives the proceeds. The bank shall settle in the same manner as for cash items it receives as paying bank.

15.15 Missent Returned Checks. If we send a returned check or notice of nonpayment to a bank on the understanding that it is the depository bank, and the bank determines that it is not the depository bank, but the bank is able to identify the depository bank, we encourage the bank to send the returned check or notice promptly to the depository bank. If the bank is unable to identify the depository bank and the item was returned in paper form, the bank shall promptly send the item back to us in a specially marked "NOI RETURN LETTER" with a request for credit. If the bank is unable to identify the depository bank and the item was returned in electronic form, the bank shall request an adjustment as provided in paragraph 20. The adjustment request must include an image of the front and back of the returned check and all electronic data that the Reserve Bank sent to the bank related to the returned check.

15.16 Protests or Special Instructions. Reserve Banks do not protest any returned check and will disregard any special instructions or protest noted on cash letters or otherwise transmitted with a cash item.

16.0 Notice of Nonpayment Service

16.1 Description of Our Notice of Nonpayment Services.

- a) A paying bank may request us to provide notice of nonpayment on its behalf using information from a returned check (physical item service). The request shall apply to all returned checks in the amount of \$5,000 or more for which

notice of nonpayment is required, that are received by our published cut-off hour on a Reserve Bank banking day, and that are separately sorted and identified as checks for which the paying bank is requesting that we provide such notice. We handle the returned checks as provided in Regulations J and CC and this Circular.

- b) A paying bank may request us to forward to the depository bank a notice of nonpayment that the paying bank submits to us by telephone (telephone notice service). The request shall apply to each returned check for which we receive a request to provide such notice of nonpayment by our published cut-off hour on a banking day for us.

- 16.2** Under our notice of nonpayment services, for a returned check or notice received by our applicable published cut-off hour on a Reserve Bank banking day, we will provide notice of nonpayment to the depository bank by 2:00 p.m. (local time for the depository bank) on the day of receipt of the check or notice, or on the next banking day for the depository bank if the day of receipt by the Reserve Bank is not a banking day for the depository bank. We must receive the notice no later than our applicable published cut-off hour on our second banking day following the banking day of receipt of the check by the paying bank for the paying bank to comply with its obligations under Section 229.31 of Regulation CC. For a returned check or notice received after our applicable published cut-off hour, we will provide notice of nonpayment as if the check or notice had been received prior to our cutoff hour on our next banking day, and shall have no responsibility for loss caused by failure of the paying bank to meet our cutoff hour. The paying bank is responsible for providing notice of nonpayment to the depository bank if the paying bank is unable to meet our cut-off hour. The paying bank's notice should indicate that the notice may be duplicated by us, if the paying bank has returned checks to us under our physical item service.
- 16.3** We provide our notice of nonpayment services under the standard of care and measure of damages set forth in Section 229.38 of Regulation CC.
- 16.4** If a paying bank provides or requests us to provide a notice of nonpayment and subsequently determines to pay an item, the paying bank should provide a second notice to the depository bank as soon as reasonably possible. The second notice should indicate that it is a second notice canceling a previous notice of nonpayment and should contain all the information that was contained in the original notice of nonpayment, to enable the depository bank to match the second notice with the original notice.
- 16.5** We have no responsibility for giving or correcting notice of nonpayment if notice is not properly given by the paying bank, except to the extent provided in our notice of nonpayment services.

17.0 Charges

Our published fee schedule shows the charges we impose for handling cash items, returned checks, notices of nonpayment, processing exceptions, and for related services. A Reserve Bank may make the charge to the designated settlement account maintained or used by the bank requesting the service, unless it makes other written arrangements with us.

18.0 Termination or Substantial Modification of Services Provided by Agreement

- 18.1** A bank may terminate a written agreement for any service that the Reserve Bank provides pursuant to this Circular by providing not less than twenty banking days' prior written notice.
- 18.2** A Reserve Bank may terminate a written agreement for any service that the Reserve Bank provides pursuant to this Circular at any time by providing written notice to the bank that uses the service. The Reserve Banks will endeavor to provide not less than 20 business days' prior written notice.
- 18.3** If a bank requests a substantial modification to its use of any service that we provide to the bank under the terms of a written agreement pursuant to this Circular, we may require a written request to modify the bank's use of the service not less than twenty days prior to the requested effective date of the service modification.

19.0 Due Diligence

- 19.1 Due Diligence - Items Sent or Returned to the Reserve Bank.** A bank is responsible for confirming that items it has sent or returned to the Reserve Bank have been received and properly credited to the designated settlement account. Such due diligence includes, but is not limited to:
- a) confirming that transmission of electronic files to the Reserve Bank is successfully completed, and that the bank has not received any messages indicating a file transmission error or failure;
 - b) confirming receipt of an acknowledgement from the Reserve Bank for each cash letter and return letter; and

- c) confirming that the bank has received the appropriate credit from the Reserve Bank.

If a bank is unable to confirm that an item that it sent or returned to the Reserve Bank has been received and properly credited, it must notify the Reserve Bank promptly.

19.2 Due Diligence - Items Presented or Returned by the Reserve Bank.

- a) It is the responsibility of each bank that has designated a settlement account to monitor its account activity at the Reserve Bank. If accounting entries indicate that a bank has been debited with respect to a cash letter or a return letter that the bank believes it has not received, it is the responsibility of the bank to notify the Reserve Bank immediately.
- b) If a bank does not receive a cash letter or a return cash letter from the Reserve Bank on a banking day on which the bank would normally expect to receive a cash letter or a return letter from the Reserve Bank, the bank should promptly notify the Reserve Bank.

19.3 Review of Statement; Due Diligence Regarding Account Activity. An account holder must promptly advise us in writing of an objection to an entry or to the absence of an expected entry in the statement of account that we provide. An account holder that fails to advise us of its objection within thirty calendar days of the date of the entry is deemed to have approved the entry, and the statement of account is deemed finally adjusted, notwithstanding any longer period for filing suit. Any bank that has used the account for settlement and has handled the cash item or returned check to which the entry relates is also deemed to have approved the entry. Reserve Banks generally keep records for only one year.

19.4 This paragraph does not relieve an account holder from the duty to exercise due diligence in obtaining and reviewing every available source of information regarding the account holder's use of the Reserve Bank's check services and in examining statements of account sent to it and of notifying us immediately on discovery of an error. Further, this paragraph does not relieve a Reserve Bank from liability for breach of warranty on an item to which an entry relates, or for an indemnity that the Reserve Bank has given with respect to an item.

20.0 Exceptions and Adjustments

20.1 Adjustments to Correct Accounting or Billing Errors.

- a) The Reserve Bank may make adjusting entries to a bank's designated settlement account to correct accounting or billing errors when the Reserve Bank discovers such errors.
- b) As provided in Operating Circular 1, a bank that discovers an accounting or billing error must notify the Reserve Bank.

20.2 Adjustments, Other Than Accounting Corrections or Billing Errors, Initiated by Reserve Bank. The Reserve Bank may take appropriate actions to correct processing exceptions and to make related adjustment entries to a bank's designated settlement account when the Reserve Bank discovers such an exception. Exception situations which may result in such actions by the Reserve Bank include, but are not limited to:

- a) Rejecting and charging back an electronic check or electronic returned check that:
 - 1) does not pass our item level quality edits; or
 - 2) contains a payor routing number that:
 - a. is not defined in our system;
 - b. contains alpha characters; or
 - c. contains an invalid check digit.
- b) Rejecting and charging back an item submitted in an incorrect type of cash letter (e.g. returned check in a forward cash letter);
- c) Rejecting and charging back all items contained in:
 - 1) A duplicate bundle; or
 - 2) A bundle that the Reserve Bank determines to contain an excessive number of exception items.

- d) Rejecting and charging back items in a cash letter if the totals for the cash letter, bundles within the cash letter, and all of the items in the cash letter do not balance;
- e) Correction of a credit for a cash letter that has been passed in error;
- f) Correcting entries for out of balance paper cash letters, including but not limited to instances of cash letters involving extra, missing, or incorrectly listed items;
- g) Reversal of entries resulting from duplicate items caused by a Reserve Bank; or
- h) Adjustment entries to designated settlement accounts resulting from delays in the Reserve Bank's processing of items (e.g. deferring the debit entry to a paying bank's designated settlement account).

The Reserve Bank may make an adjusting entry to a bank's designated settlement account with respect to a claim arising from a warranty or indemnity that the bank has made to a Reserve Bank with respect to an item or from a processing exception caused by the bank.

20.3 Notice to Bank. If the Reserve Bank initiates an adjustment pursuant to paragraph 20.1 or 20.2 it will make reasonable efforts to advise the bank of the amount and reason for the adjustment.

20.4 Adjustments, Other Than Accounting Corrections or Billing Errors, Initiated by a Bank.

- a) The Reserve Bank provides a process through which a bank that has sent an item to a Reserve Bank or has received an item from a Reserve Bank may initiate an adjustment request, with respect to such item, to:
 - 1) resolve processing exceptions (for example, the presentment of an item that has already been paid);
 - 2) obtain information, including but not limited to, a request that the Reserve Bank disclose our source of receipt of an item, or that the Reserve Bank provide a copy of an item, or that we provide information regarding a cash letter (e.g. a tape total); or

- 3) assert a type of claim specifically identified in this paragraph 20 arising from:
 - a. a warranty or indemnity that was made to the requesting bank either by the bank that sent the item to the Reserve Bank, or by the Reserve Bank; or
 - b. an error or delay in processing.
- b) A bank that initiates an adjustment request pursuant to this subparagraph must request the adjustment in accordance with this Circular and in accordance with the requirements, instructions and procedures set forth in the Check Adjustments Quick Reference Guide.
- c) The Check Adjustments Quick Reference Guide (which the Reserve Banks revise from time to time) specifies:
 - 1) the requirements and timeframes for submitting each different type of adjustment request permitted under this paragraph 20;
 - 2) the documentation requirements for different types of adjustment requests;
 - 3) the acknowledgements that are provided for requests; and
 - 4) when the Reserve Banks will request authorization to charge, and then charge a bank if it does not respond to the inquiry.

Banks should consider the timeframes in the Check Adjustments Quick Reference Guide as the outside limits for requesting adjustments and should request adjustments as promptly as possible so as to minimize losses to other banks and to limit their own liability for delays.

20.5 Submission and Receipt

- a) A bank may submit, receive, and respond to adjustment requests in paper form, or electronically using a FedLine® connection. A bank that submits adjustment requests using a FedLine® connection agrees to receive and respond to adjustment requests using a FedLine® connection.

- b) A bank may elect to use the FedMail® system to electronically receive advices, adjustment messages and images, and documents in digital form.
- c) Banks that use a FedLine® connection or FedMail® to submit, receive, or respond to adjustment requests are bound by the terms of Operating Circular 5 and by the terms of this Circular related to electronic access.

20.6 Supporting Documentation. The Check Adjustments Quick Reference Guide defines the required supporting documentation for each type of adjustment request and the procedures for submitting such documentation. A bank submitting supporting documentation should keep legible originals/copies of the documentation submitted. A Reserve Bank may close an adjustment case if it has not received all of the required supporting documentation within a specified period of time. It is the responsibility of the bank requesting the adjustment from the Reserve Bank to provide the required documentation.

20.7 Access to and Use of Supporting Documents.

- a) The Reserve Banks make electronic copies of supporting documents related to an adjustment request available to banks on a “best efforts” basis for one year from the date of the adjustment case with which the documents are associated. The Reserve Banks may destroy the documents thereafter. The Reserve Banks will limit access to supporting documents to the sender of the document, the Reserve Banks, and any banks involved in the adjustment request. Authorized banks may access documents electronically through the use of a FedLine Web® connection.
- b) Supporting documents may be used for research and resolution of adjustment requests, but may not be used for presentment of cash items or return of unpaid checks unless otherwise specifically allowed in this Circular.

20.8 Due Diligence By Requesting Bank. A bank that receives neither an entry nor an acknowledgement promptly after submitting an adjustment request should contact the Reserve Bank.

20.9 Authorization to Make Entries Related to Adjustment Requests. Each bank that sends an item or a returned check to, or receives an item or a returned check from, the Reserve Bank authorizes the Reserve Bank to make an entry to adjust the bank’s designated settlement account with respect to an adjustment request

submitted to the Reserve Bank in accordance with the Check Adjustments Quick Reference Guide with respect to such a cash item or returned check.⁸

20.10 Limited Role of the Reserve Bank. In handling any adjustment request initiated by a bank under this paragraph, the Reserve Bank determines only that the form that is used to initiate is submitted timely and is substantially complete, unless the claim is against the Reserve Bank only and does not pass through to another bank. The Reserve Bank assumes no responsibility for determining whether the statements made in an adjustment request by a bank are correct or for arbitrating disputes between banks. A bank may be subject to criminal penalties under Federal and/or State law for knowingly making a false statement to influence the action of a Reserve Bank in granting a credit. The Reserve Bank undertakes to handle an adjustment claim and make entries within a reasonable time after receipt, but not within the timeframe for handling an item.

20.11 Types of Claims for Which We Do Not Provide an Adjustment Process.

- a) The adjustment process provided by the Reserve Bank may be used to assert only claims of the specific types identified in this paragraph. The Reserve Bank does not perform adjustments with respect to every kind of claim that might arise with respect to items handled by the Reserve Banks. A bank may need to pursue other kinds of claims directly with another bank or by making a legal claim rather than, or in addition to, an adjustment request.
- b) A bank that believes it has a claim for breach of warranty based on an altered check, a forged indorsement, a missing indorsement or an unauthorized indorsement against another bank should deal directly with that other bank. A bank that believes it has such a claim against a Reserve Bank should provide prompt notice of such a claim and also submit the claim to the Reserve Bank together with appropriate documentation, including an affidavit of forged or unauthorized indorsement or alteration.
- c) Except as specifically provided by law or regulation, a paying bank may not claim breach of warranty because of a forged or unauthorized drawer signature, or return an item with entry after the return deadline for that or any other reason.

⁸ The warranties made with respect to cash items and returned checks are set forth in sections 210.6(b) and 210.12(e) of Regulation J and sections 229.34 and 229.52 of Regulation CC, except as otherwise provided in various Operating Circulars. The principal warranties that banks make to the Reserve Bank are set forth in sections 210.5(a) and 210.12(c) of Regulation J and sections 229.34 and 229.52 of Regulation CC.

20.12 Pass-Through Warranty or Indemnity Claims. When a request for adjustment involves a warranty or indemnity made by the Reserve Bank to the bank that requests the adjustment and a warranty or indemnity made to the Reserve Bank by another bank, the Reserve Bank will handle the claim against the other bank in accordance with this Circular. If the other bank denies the claim that was asserted by means of the adjustment request, the bank requesting the adjustment from the Reserve Bank may pursue the claim directly with the other bank or may pursue its claim against the Reserve Bank by means other than the adjustment process. If an action or proceeding is brought against the Reserve Bank, the Reserve Bank may tender the defense of that action or proceeding to another party in accordance with Regulation J.

20.13 A Warranty or Indemnity Claim Does Not Justify Returning an Item After the Return Deadline. A bank must not attempt to recover on a warranty or indemnity claim by including the item in a paper or electronic cash letter or return letter after the return deadline.

20.14 Sender's Claim of Late Return by the Paying Bank

If a sender believes that the paying bank returned late (after the paying bank's deadline under the Uniform Commercial Code, Regulation J, and Section 229.31(g) of Regulation CC)⁹ a check or electronic item in the amount of \$100.00 or more, the sender may dispute the return by furnishing us with the returned check (or a legible copy of the front and back of the returned check) and a signed statement that the bank believes that the paying bank returned the check late. This procedure may be used only once for each return, and only if the check or electronic item has been handled by a Reserve Bank for forward collection or return. The statement must be in a format we prescribe and must be received by a Reserve Bank within two calendar months after the sender was charged for the returned check. The sender's Administrative Reserve Bank will provisionally credit the amount of the returned check to the sender's account. A Reserve Bank will charge that amount to the account of, and send the returned check (or a legible copy of the front and back of the returned check) and statement to, the paying bank. The first Reserve Bank receiving a claim of late return may, in its discretion, refuse to handle it and return it to the sender. If a sender or depository bank attaches a copy with its claim and the paying bank demands the original, the sender or depository bank must provide the original, if it exists, or a legal equivalent, if possible.

⁹ This deadline is generally midnight of the banking day following the banking day of receipt of the check by the paying bank (Uniform Commercial Code Section 4-302 and Regulation J Section 210.12(a)), except as the deadline may be extended under Section 229.31(g) of Regulation CC. This deadline applies to checks returned with entry for any reason, including forged endorsement or forged drawer signature.

20.15 Revocation of Credit for Late Return

The sender's Administrative Reserve Bank will revoke the credit provided under paragraph 20.4 given to the sender (and a Reserve Bank will recredit the paying bank) if:

- a) for any reason a Reserve Bank cannot obtain the amount of the credit from the paying bank; or
- b) a Reserve Bank receives the returned check or the copy the paying bank received with the Claim of Late Return and a statement as provided below from the paying bank within twenty banking days after the Reserve Bank charged the bank for the claim of late return. The paying bank's statement must be in a format we prescribe that is signed by an officer of the paying bank and:
 - 1) state that the paying bank returned the check within its deadline under the Uniform Commercial Code and Regulation J or Section 229.31(g) of Regulation CC; and
 - 2) show the banking day of receipt and the date of return of the check by the paying bank.

The sender should recognize that this twenty-banking day period applies only to the paying bank, and does not include the time required for us (and another Reserve Bank) to process the statement. This adjustment procedure is offered as a convenience only and does not preclude any party from pursuing its claim in another forum.

20.16 Overencoded Item

A bank may request an adjustment based on a claim that the MICR encoded amount of a cash item or returned check is greater than the true amount of the item, if the bank received the item from us and settled for it in the encoded amount. The request must be received by a Reserve Bank within six calendar months after the item was charged to the requesting bank and must provide all information that the Reserve Banks require, including a photocopy of the front and back of the item, that clearly shows the amount of the encoding error (words control over figures in determining the true amount of the item). The requesting bank's Administrative Reserve Bank will provisionally credit the bank in the amount of the difference between the encoded amount and the true amount of the item. A Reserve Bank will charge that amount, and send the documentation to, the bank from which the Reserve Bank received the item.

20.17 Underencoded Item

A bank may request an adjustment based on a claim that the MICR encoded amount of a cash item or returned check is less than the true amount of the item, if the bank sent the item to us and received settlement for it in the encoded amount. The request must be received by a Reserve Bank within six calendar months after the item was credited to the requesting bank, and must provide all information that the Reserve Banks require, including a photocopy of the front and back of the item that clearly shows the amount of the encoding error (words control over figures in determining the true amount of the item). The requesting bank's Administrative Reserve Bank will provisionally credit the bank in the amount of the difference between the encoded amount and the true amount of the item. A Reserve Bank will charge that amount and send the documentation to the bank to which the Reserve Bank presented or returned the item. However, the Administrative Reserve Bank reserves the right not to credit the requesting bank if a Reserve Bank is unable to charge the paying or depositary bank.

20.18 Revocation of Adjustments for Underencoded Items

The requesting bank's Administrative Reserve Bank will revoke part or all of the credit given to the bank, and a Reserve Bank will recredit the paying or depositary bank, if a Reserve Bank receives a statement as provided below from the paying or depositary bank, within twenty banking days after the Reserve Bank charged the paying or depositary bank for the undercoding claim. The statement must be in a format we prescribe that is signed by an officer of the paying or depositary bank, and:

- a) state that the paying or depositary bank had charged its customer for the encoded amount of the item and is unable to recover all or a specified portion of the difference between the encoded amount and the true amount of the item by charging the account of the customer; and
- b) request an adjustment in that specified amount, based on a claim of breach of warranty with respect to the encoding error.

20.19 Other Encoding Errors or Cash Letter Total Errors

- a) A claim of an error in a cash letter total that results from an amount encoding error should be made as a claim of an amount encoding error under paragraphs 20.16 - 20.18. A claim of a missing or destroyed item should be made under paragraph 21. A claim relating to any other cash letter listing error should be made as provided in this paragraph 20.

- b) A paying bank should handle an item that contains the routing number of the bank as provided in paragraph 14 of this Circular, whether or not the routing number was encoded in error after the issuance of the item.

20.20 Warranty Claims Regarding Remotely Created Checks Transferred or Presented by the Reserve Bank

- a) A bank may, in accordance with the following provisions, request an adjustment based on a claim against the Reserve Bank for the Reserve Bank's alleged breach of the warranty associated with a remotely created check set forth in Section 229.34(b) of Regulation CC with respect to a check that the Reserve Bank transferred or presented to the bank.
- b) An adjustment request under this subparagraph must be made no later than 90 days after the date on which the Reserve Bank transferred or presented the check that is subject to the request to the requesting bank.¹⁰
- c) The requesting bank must submit:
 - 1) a completed adjustment request in a format that we prescribe;
 - 2) a legible copy of the front and back of the check; and
 - 3) a statement in a format we prescribe from a person on whose account the check is drawn in which that person asserts under oath that issuance of the check was not authorized with regard to one or both of the following:
 - (i) the amount stated on the check,
 - (ii) the payee stated on the check.

It is the responsibility of the bank requesting the adjustment from us to provide the required documentation.

- d) By submitting an adjustment request under this subparagraph 20.20 with respect to a check, the requesting bank avers that (i) the check was not created by the paying bank and (ii) the check does not bear a signature applied, or purported to be applied, by the person on whose account the check is drawn.

¹⁰ Submitting an adjustment request does not relieve the requesting bank of any notice requirement with respect to the warranty claim that may be imposed by other law or regulation, e.g. section 229.34(k) of Regulation CC.

- e) If the Reserve Bank receives a properly completed adjustment request and all required supporting documentation within the timeframe specified under this subparagraph 20.20, the requesting bank's Administrative Reserve Bank will credit the amount of the check to the account of the requesting bank. The Administrative Reserve Bank of the sending bank will charge that amount to the account of the sending bank. A Reserve Bank will send a legible copy of the front and back of the check to the sending bank within a time frame specified in the Adjustments Quick Reference Guide as amended from time to time. The requesting bank's Administrative Reserve Bank will revoke a credit provided to the requesting bank under this subparagraph 20.20 if for any reason a Reserve Bank cannot obtain the amount of the credit from the sending bank.

- f) By requesting an adjustment with respect to a check pursuant to this subparagraph 20.20, the requesting bank agrees to relieve the Reserve Banks of any liability for a breach of the warranty in Section 229.34(b) with respect to the check. The sending bank agrees to deal directly with the requesting bank or another non-Reserve Bank party to resolve any claims or defenses related to the adjustment or the warranty set forth in Section 229.34(b) of Regulation CC with respect to the check.

20.21 Certain Warranty Claims Regarding Electronic Items or Substitute Checks

- a) A bank that received a substitute check or electronic item handled by a Reserve Bank and that believes it has a claim against a Reserve Bank for breach of a warranty described in Section 229.52 of Regulation CC or Section 210.6(b)(3) or section 210.12(e)(1)(ii) or (2) of Regulation J may request an adjustment for the breach from a Reserve Bank. A bank that believes it has a claim arising from a warranty made by the Reserve Bank pursuant to section 229.52 of Regulation CC or section 210.6(b)(3) or section 210.12(e)(1)(ii) or (2) of Regulation J must notify the Reserve Bank of that claim in writing within 30 calendar days after the claimant becomes aware of the facts giving rise to the claim, but in no case later than one year after the claim accrues.

- b) A bank requesting an adjustment from us for such a warranty claim must submit the claim by completing a warranty claim form provided by the Reserve Bank that includes a description of the claim, an explanation of how the substitute check or electronic item caused the Reserve Bank to breach a warranty to the claimant, and a statement of the amount of the loss the claimant alleges that it has suffered. The bank seeking an adjustment from

us must provide documentation sufficient to support its claim and to substantiate the amount of the claim.

- c) If such a warranty claim against the Reserve Bank with respect to a substitute check or an electronic item gives rise to a warranty or indemnity claim by the Reserve Bank against another bank, the Reserve Bank may decline to give the adjustment to the requesting bank. If an action or proceeding is brought against the Reserve Bank, the Reserve Bank may tender the defense of that action or proceeding to another party in accordance with Regulation J.

20.22 Certain Indemnity Claims Regarding Electronic Items or Substitute Checks

- a) A bank that received a substitute check or electronic item handled by a Reserve Bank and that believes that it has a claim against that Reserve Bank on the basis of an indemnity arising under section 229.53 of Regulation CC or section 210.6(b)(4)(i) or section 210.12(e)(2)(i) of Regulation J may request an adjustment from the Reserve Bank. The requesting bank must notify the Reserve Bank of the claim in writing within 30 calendar days after the claimant becomes aware of the facts giving rise to the claim, but in any case no later than one year after the indemnity claim accrues.
- b) A bank requesting an adjustment from us for such an indemnity claim must submit a substantially completed indemnity claim form that includes a description of the claim, an explanation of how the receipt of the substitute check or electronic item instead of the original check caused the claimant to suffer a loss, and a statement of the amount of the loss the claimant alleges that it has suffered. The requesting bank must attach to the claim form, physically or electronically, documentation sufficient to support its claim and to substantiate the amount of the claim.
- c) If such an indemnity claim against the Reserve Bank with respect to a substitute check or an electronic item gives rise to a warranty or indemnity claim by the Reserve Bank against another bank, the Reserve Bank may decline to give the adjustment to the requesting bank. If an action or proceeding is brought against the Reserve Bank, the Reserve Bank may tender the defense of that action or proceeding to another party in accordance with Regulation J.

20.23 Expedited Recredit Claims

- a) This paragraph 20.23 varies the expedited interbank recredit procedures established by section 8 of the Check 21 Act and section 229.55 of

Regulation CC to the full extent permitted by law, but only to the extent that the provisions of this paragraph expressly differ from the provisions of section 229.55 of Regulation CC.

- b) A bank that has an indemnity claim under section 229.53 of Regulation CC against an indemnifying Reserve Bank may make a claim for a recredit in writing to the Reserve Bank. If the recredit claim meets the eligibility, timing, content, and form requirements of section 229.55 of Regulation CC, (the claim must include a written copy of any claim submitted by a consumer to the claimant bank), within ten business days after the Reserve Bank's banking day on which the Reserve Bank receives the recredit claim, the Reserve Bank will take one of the actions specified in section 229.55(c) of Regulation CC. The Reserve Bank provides an original check or a sufficient copy of an original check when the Reserve Bank mails or dispatches the original check or a sufficient copy, or if the claimant bank agrees to receive a copy of the check by electronic means, the Reserve Bank provides the copy when it transmits the copy or places the copy on a Reserve Bank storage device from which the copy is available for retrieval by the claimant bank.

- c) If a recredit claim that is made against the Reserve Bank is a claim with respect to a substitute check that the Reserve Bank received from another bank, or with respect to a substitute check that the Reserve Bank created by reconvertng an electronic item that was sent to the Reserve Bank by another bank, the Reserve Bank will notify the bank that sent the substitute check or the electronic item that the recredit claim has been made and the date by which the Reserve Bank must respond to the claimant bank. In such a notice, the Reserve Bank will request that the original check or a sufficient copy be provided to the Reserve Bank as expeditiously as possible, so that the Reserve Bank may provide the original check or a sufficient copy of the original check to the claimant bank in a timely manner.

20.24 Reserve Bank Request for Original Check or Sufficient Copy

The Reserve Bank may request that a bank that has sent the Reserve Bank a substitute check or an electronic item provide to the Reserve Bank the original check or a sufficient copy. The bank must respond to the Reserve Bank's claim within ten business days after receipt of such request by providing the original check or a sufficient copy to the Reserve Bank, or by explaining why the original or a sufficient copy is not available.

20.25 Claims Against a Reserve Bank by Parties Other Than Receiving Banks

A party other than a receiving bank that believes that it has a claim for breach of warranty or indemnity pursuant to sections 229.52 or 229.53 of Regulation CC may file a claim against a Reserve Bank by providing in writing the information

required by paragraph 20 and sending the claim, along with documentation supporting the claim, to the Check Adjustments Department of the Reserve Bank.

20.26 Adjustment Claims Regarding Duplicate Substitute Checks and/or Electronic Items

- a) A bank that sends or returns to a Reserve Bank an electronic item or substitute check that duplicates an item the bank has sent to a Reserve Bank must promptly notify the Reserve Bank. If multiple duplicate items were sent to the Reserve Bank, the bank shall provide a detailed listing of the duplicate items if the Reserve Bank so requests.
- b) A bank that receives from a Reserve Bank an electronic item or substitute check that the bank has received from a Reserve Bank may request a "PAID" adjustment to its Federal Reserve account. A bank may not request an adjustment for a duplicate item that it has returned in a return letter or for which the bank has otherwise received credit.
- c) The requesting bank must follow the Reserve Bank's procedures for submitting a PAID adjustment. These procedures are published in the Adjustments Quick Reference Guide. The procedures for requesting a PAID adjustment may differ depending on whether the duplication involves a photo in lieu, a duplicate substitute check, or a duplicate electronic item.
- d) By requesting an adjustment under this paragraph 20.26, the requesting bank indemnifies the Reserve Bank for any liability, losses, and costs that arise because the bank did not (i) follow any requirements set forth in the Adjustments Quick Reference Guide for including a duplicate item, clearly marked "VOID," with the adjustment request; (ii) take all reasonable measures to identify and control all paper or electronic iterations of the duplicate, and (iii) prevent the further transfer of the duplicate.
- e) By making an adjustment request with respect to a duplicate electronic item or substitute check, the requesting bank authorizes the Reserve Bank to revoke any credit that the Reserve Bank might make in response to the adjustment request, if the Reserve Bank determines that the bank has both received a credit from the Reserve Bank for the duplicate items in response to the adjustment request and has also received credit for the duplicate items by any other means. If a Reserve Bank gives a bank a credit adjustment for duplicate items, the bank must promptly re-credit its customers for any charges that the bank has made to its customer accounts with respect to the duplicate items.

20.27 Claims Arising Under the Remote Deposit Capture Indemnity

- a) A bank may request an adjustment relating to an indemnity claim arising under section 229.34(f) of Regulation CC only if:
 - 1) The bank asserting the claim sent the item that is the subject of the claim to a Reserve Bank or received the item from a Reserve Bank; and
 - 2) The bank against which the claim is being asserted sent the item that is the subject of the claim to a Reserve Bank or received the item from a Reserve Bank.
- b) A claim arising under section 229.34(f) of Regulation CC may not be asserted against a Reserve Bank and is not a pass through claim.
- c) The procedures and deadlines for asserting and responding to an indemnity claim pursuant to this paragraph 20.27 are set forth in the Check Adjustments Quick Reference Guide.

20.28 Claims Arising under the Electronically-Created Items Indemnities

A bank may assert an indemnity claim arising under section 229.34 of Regulation CC by following the procedures and deadlines for asserting and responding to an indemnity claim set forth in the Check Adjustments Quick Reference Guide.

20.29 Settlement. Settlement for adjustments or corrections will be made at the times for posting transactions set forth in the Federal Reserve Policy on Payment System Risk.

20.30 Expenses. In handling adjustments under this section, a Reserve Bank does not have any responsibility or liability with respect to interest or expenses incurred by another bank as a result of any breach of warranty, indemnity, or negligence.

20.31 Adjustment Proceeds Owed to Depositors. A bank that receives a credit adjustment to its settlement account relating to a warranty or indemnity claim must pass the benefit of the adjustment through to its customer if the customer is entitled to the funds.

20.32 Reservation of Rights. Nothing in this paragraph limits a Reserve Bank's discretion to deny any adjustment request and to dispute any claim against a Reserve Bank.

21.0 Missing or Destroyed Cash Items and Returned Checks

21.1 Mutilated Cash Letters and Return Letters. A bank that receives from us a cash letter or return letter in a mutilated condition should telephone us before attempting to process any part of it. Sometimes tracing and identification of mutilated or destroyed items can be expedited when the letter is returned to us intact.

21.2 Cash Items Discovered Missing or Destroyed. A Reserve Bank will credit or refund the amount received for a cash item if the paying bank reports that it discovered during initial proving that the item is missing, or knows that the item was missing or destroyed in transit to the paying bank. A Reserve Bank will credit or refund the amount only if a Reserve Bank receives the report within twenty banking days from the date of the cash letter that listed the item.

21.3 If the Reserve Bank discovers that a cash item is missing, or if a paying bank reports that a cash item is missing or destroyed as provided in paragraph 21.2, either the Reserve Bank may prepare and present to the paying bank a photocopy of the lost or destroyed item as provided in paragraph 21.4, or the sender's Administrative Reserve Bank will charge back to the sender the amount of the cash item.

21.4 Preparation of Photocopies of Cash Items.

- a) If a cash item is lost or destroyed prior to receipt by the paying bank, the sender authorizes the Reserve Bank to prepare on the sender's behalf a photocopy of the front and back of the lost or destroyed item and present the photocopy to the paying bank.
- b) When a Reserve Bank prepares and presents on behalf of a sender a photocopy of an item reported lost or destroyed, the sender guarantees all prior and any missing indorsements. Upon payment of the photocopy, the sender agrees to hold each collecting bank and the paying bank harmless from any loss suffered, if payment is stopped on the original check and the original check (as well as any electronic or paper derivative from the original check) remains unpaid.
- c) When a Reserve Bank prepares and presents on behalf of a sender a photocopy of an item reported lost or destroyed, the Reserve Bank warrants to the sender and the paying bank that the copy is an accurate copy of the item from the Reserve Banks' records and that the item was reported missing or destroyed in the regular course of bank collection.

d) If a Reserve Bank cannot or does not prepare a photocopy, it or the Administrative Reserve Bank of the sender will charge back the amount of the lost or destroyed item to the sender. The sender may send the Reserve Bank a correctly prepared photocopy. A correctly prepared photocopy must be a legible copy of the front and back of the cash item and must bear the sender's current indorsement and the following or equivalent signed legend:

1) This is a photocopy of the original check which we indorsed and which was reported missing or destroyed in the regular course of bank collection. We guarantee all prior and any missing indorsements and the validity of this copy. Upon payment of this copy, we agree to hold each collecting bank and the payor bank harmless from any loss suffered, if payment is stopped on the original check and the original check remains unpaid.

2) By sending a photocopy to the Reserve Bank under this paragraph without the legend required by subparagraph 21.4(d), a sender guarantees all prior and any missing indorsements and the validity of the photocopy, and upon payment of the photocopy agrees to hold each collecting bank and the paying bank harmless from any loss suffered, if payment is stopped on the original check and the original check (as well as any electronic or paper derivative from the original check) remains unpaid.

21.5 Handling of Photocopies of Cash Items. After we have charged back a bank for a missing or lost cash item, we handle a correctly prepared photocopy as a cash item qualified for automated handling through check processing, if the photocopy meets the requirements for such items set forth in this Circular. Alternatively, we will handle a photocopy as a cash item adjustment request if a Reserve Bank receives the photocopy and a copy of the advice of chargeback or request within twenty banking days from the day the Reserve Bank charged back the original item or requested the photocopy.

21.6 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) a Reserve Bank receives the photocopy cash letter within six 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.

21.7 We present or send a photocopy as a cash item subject to all the rules as to payment and return of cash items, including return deadlines, except for the requirement of notice of nonpayment and as otherwise provided in this paragraph. A photocopy presented to a bank as an adjustment or in a cash letter must be paid or returned by the paying bank within the UCC and Regulation CC deadlines. A paying bank also has a limited right to return a photocopy as an adjustment request within twenty banking days of receipt if the drawer has refused to authorize payment of the photocopy or the paying bank has been unable to contact the drawer, and the paying bank returns the photocopy and a signed statement to that effect.

21.8 We assume no responsibility for determining whether a return of a photocopy is timely or for determining whether a report by another bank of a missing or destroyed cash item, a statement regarding the handling of a photocopy, or a photocopy of a cash item, is correct. We handle a report of a missing or destroyed cash item received by a Reserve Bank more than twenty banking days from the date of the cash letter as provided in the Check Adjustments Quick Reference Guide and only with the approval of the other bank(s) interested in the return. We undertake to handle reports and photocopies and make entries with respect to missing or destroyed cash items within a reasonable time after receipt, but not within the timeframes for handling an item.

21.9 Receipt of Both Photocopy and Cash Item or Returned Check. If a paying or depository bank has paid an item and subsequently receives from us and pays for a photocopy of the item, or has paid a photocopy and subsequently receives from us and pays for the item, that bank may request an adjustment from us within three calendar months of the date of our charge for the item. The bank must provide:

- a) the second item it received from us (or a legible photocopy of the front and back of that item);
- b) a legible photocopy of the front and back of the item the bank received first; and
- c) the bank's source of receipt information for both items.

21.10 Returned Checks Discovered Missing or Destroyed. A Reserve Bank will credit or refund the amount received for a returned check if a depository bank reports that it discovered during initial proving that the check was missing, or knows that the check was missing or destroyed in transit to the sender. A Reserve Bank will credit or refund the amount only if a Reserve Bank receives the report within twenty banking days from the date of the return letter that listed the check.

21.11 If the Reserve Bank discovers that a returned check is missing, or if a depository bank reports that a returned check is missing or destroyed as provided in paragraph 21.10, either the Reserve Bank may prepare and return to the depository bank a photocopy of the lost or destroyed item as provided in paragraph 21.12, or the Administrative Reserve Bank will charge back to the paying or returning bank the amount of the returned check. The paying or returning bank may then send us a photocopy in lieu of the original as provided in paragraph 21.14.

21.12 Preparation of Photocopies of Returned Checks.

- a) If a returned check is lost or destroyed prior to receipt by the depository bank, the paying bank or returning bank that sent the returned check authorizes the Reserve Bank to prepare and send a photocopy of the front and back of the lost or destroyed returned check to the depository bank.
- b) When a Reserve Bank prepares and sends a photocopy on behalf of the paying or returning bank, the Reserve Bank warrants to the paying or returning bank and to the depository bank that the photocopy is an accurate copy of the check from the Reserve Banks' records and that the check was reported missing or destroyed in the regular course of collection.

21.13 Handling of Copies of Returned Checks; Notices In Lieu of Return. We handle as a returned check a legible photocopy of a returned check (front and back), or, if a photocopy is not available to the paying or returning bank, a written notice of nonpayment containing the information specified in Section 229.31 of Regulation CC. We handle such a legible photocopy as a returned check, subject to the requirements in paragraph 15, if it is prepared for automated handling and sent in a return letter. We will also handle such a photocopy as an adjustment within twenty banking days of the day the Reserve Bank charged back the returned check or requested the photocopy. If a Reserve Bank charged back the returned check to the paying or returning bank under paragraph 21.11 or requested the copy, a Reserve Bank must receive the photocopy or notice and a copy of the advice of chargeback or request within twenty banking days from the day the Reserve Bank charged back the returned check or requested the photocopy. The photocopy or notice shall clearly state that it is a "Notice in Lieu of Return," and should not contain the legend set forth in paragraph 21.4. By sending a notice in lieu of return to us for credit, a paying or returning bank warrants that it has not received credit for the returned check, and makes the warranties set forth in Section 229.34 of Regulation CC. The depository bank may recover with respect to a copy of a return check only as provided in paragraph 21.9.

21.14 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, subject to the requirements in paragraph 15, if (a) the photocopy returned check letter is identified as containing photocopies or notices of items from a lost or destroyed shipment, and (b) a Reserve Bank receives the photocopy returned check letter within six 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 sender.

- 21.15** We assume no responsibility for determining whether a report by another bank of a missing or destroyed returned check, a statement regarding payment of the original returned check, or a photocopy of a returned check prepared by any entity other than the Reserve Bank, is correct. A photocopy of a returned check shall not be sent to a Reserve Bank for collection as a cash item. We handle a late report of a missing or destroyed returned check only as provided in the Check Adjustments Quick Reference Guide and only with the approval of the other bank(s) interested in the return. We undertake to handle reports with respect to missing or destroyed returned checks within a reasonable time after receipt, but not within the timeframes for handling an item.

22.0 Cut-Off Hour

For purposes of our midnight deadline under the Uniform Commercial Code and under Regulation CC, items received after 2:00 p.m. for collection or return are considered to be received on our next day banking day. The 2:00 p.m. cut-off hour does not extend or otherwise affect the deadlines in our schedules for credit availability or for the presentment of items drawn on the Reserve Bank.

23.0 Electronic Access to the Reserve Bank's Check Services

- 23.1** Electronic access to our electronic check processing systems is governed by Reserve Bank Operating Circular 5 ("OC 5"), entitled "Electronic Access," except as specifically provided in this paragraph 23. By using an electronic connection to access our check services, a bank agrees to the terms and conditions of this paragraph 23 and of OC 5, as amended from time to time. A bank that uses electronic access to the Reserve Bank's check services is a "Participating Bank" for purposes of this paragraph 23 of this Circular. Not every type of electronic access or electronic connection supports every feature of the Reserve Bank's cash item collection and returned check services. Thus, a Participating Bank may find it necessary to use more than one type of electronic access or electronic connection to be able to use all of the services described in this Circular.

- 23.2** With respect to any failure by the Reserve Bank to provide electronic access to its check services, the Reserve Bank shall be liable only for its own negligence in failing to provide electronic access. The Reserve Bank's liability for any such failure to provide electronic access shall be the amount of any loss or damage directly caused by such failure, but in no case shall the amount of such liability exceed the amount of the monthly access fee that the Participating Bank pays for electronic access to the Reserve Bank's check services. In no event will the Reserve Bank be liable for indirect or consequential damages.
- 23.3** A bank that wishes to become a Participating Bank must establish, to the Reserve Bank's satisfaction, that the Participating Bank's systems are functionally compatible with the Reserve Bank's processing systems and that both the Participating Bank's systems and the Reserve Bank's systems are capable of processing the volume of check processing services that the Participating Bank anticipates that it will access electronically. Meeting these conditions will require a bank to, among other things, identify the Reserve Bank office(s) to which the bank plans to send electronic checks or electronic returned checks, and specify the maximum volume of electronic checks or electronic returned checks that the bank will send to each Reserve Bank office on any given day. A bank that wishes to receive electronic checks or electronic returned checks from the Reserve Bank must execute an agreement with the Reserve Bank and meet any conditions specified by the Reserve Bank. The Reserve Bank in its discretion will determine whether the conditions are met. If the conditions are met, the Reserve Bank will notify the Participating Bank that it may commence using electronic access to the Reserve Bank's check services. A Participating Bank has a continuing obligation to ascertain that its systems are compatible with the Reserve Bank's systems for processing electronic checks or electronic returned checks. A Participating Bank must obtain the Reserve Bank's consent prior to sending electronic checks or electronic returned checks to any Reserve Bank office that exceed the maximum daily number of electronic checks and electronic returned checks previously specified by the Participating Bank, or sending electronic checks or electronic returned checks to any Reserve Bank office not previously identified by the Participating Bank.
- 23.4 Delivery and Receipt of Data.** Items, notices, messages, acknowledgements and information are delivered by the Reserve Bank and received by a Participating Bank by means of an electronic connection when they have been placed in a file on a Reserve Bank storage device that makes the file available for the Participating Bank to retrieve or review; or transmitted to the Participating Bank. A Participating Bank must manage its electronic connection so as to permit it to receive notices, messages, and information in a timely manner throughout the day and night. If a Participating Bank fails to manage its electronic connection in such a manner, a Reserve Bank may limit any attempts to send a notice, message or other information to the Participating Bank's computer. In such a case, the Reserve Bank shall be deemed to have sent the notice, message or information when the Reserve Bank attempted to transmit the notice, message or information.

- 23.5** Items, notices, messages, acknowledgements, and information are delivered by a Participating Bank and received by the Reserve Bank via an electronic connection when they have been placed in a file on a Reserve Bank storage device that makes the file available for the Reserve Bank to retrieve or review.
- 23.6** For purposes of determining when an item, notice, message, acknowledgement, or information file has been delivered and received, the Reserve Bank's records shall be determinative.
- 23.7 Time and Place of Sending of Files via Electronic Access.** An item, notice, message, instruction, or acknowledgement that is delivered by the Reserve Bank via an electronic connection is deemed to have been sent by a Reserve Bank from the physical location associated with the routing number that identifies the office of the Reserve Bank. The time of the sending is deemed to be the local time at the office so identified.
- 23.8 Time and Place of Receipt of Files via Electronic Access.** An item, notice, message, instruction, or acknowledgement that is delivered to the Reserve Bank via an electronic connection is deemed to be received by a Reserve Bank at the physical location associated with the office of the Reserve Bank to which the notice, message, instruction, or acknowledgement is addressed. The time of receipt is deemed to be the local time at the office so identified.
- 23.9 Notices.** Any notice that may be given by the Participating Bank to the Reserve Bank or by the Reserve Bank to the Participating Bank with respect to the collection or return of a check pursuant to this Circular may be given through the Reserve Bank's electronic connections. By using electronic access to the Reserve Bank's check services, a Participating Bank agrees that the Reserve Bank's electronic connections are a reasonable means of providing and receiving any notice contemplated by this Circular.
- 23.10** For purposes of this Circular and its appendices, the Reserve Bank's electronic connection is a method that the Reserve Bank prescribes for delivering an instruction to return an item.
- 23.11** A Participating Bank bears the responsibility to retrieve its files from the Reserve Bank's systems in a timely manner to enable the bank to perform its obligations under this Circular, Subpart A of Regulation J, Subpart C of Regulation CC, and other applicable laws and regulations.
- 23.12** The Reserve Bank is not obligated to retain copies of electronic checks or electronic returned checks or to make copies of electronic checks or electronic returned checks available except as provided in this Circular or under a separate

written agreement. The Reserve Bank does not undertake to keep image cash letters or image return letters available on its systems for retrieval by a bank to which such a cash letter has been presented or returned for a period longer than two banking days after the day the Reserve Bank presents or returns the cash letter. (Wherever the term “banking day” is used in this Circular, it refers to this Reserve Bank’s banking day unless a different meaning is expressly stated.)

23.13 Disruptions in Electronic Services.

- a) If for any reason we determine that we are unable to provide a Participating Bank with electronic access to check services, we will promptly notify Participating Banks. In such circumstances, we may work with the Participating Bank to find alternative means of electronic transfer, presentment, or return, or we may elect to transfer, present, or return any items in physical rather than electronic form.
- b) A Participating Bank must notify us promptly of any disruption of its electronic access that prevents the Participating Bank from using the Reserve Bank’s check service.
- c) The Reserve Bank is not responsible for the accessibility, reliability, or speed of the connection provided to a Participating Bank by its agents or service providers, including but not limited to its internet service provider and telecommunications service provider.

23.14 Suspension or Disconnection of Electronic Access. The Participating Bank and its agent, if any, are responsible for the proper operation and the security of its electronic information systems. The Reserve Bank in its discretion may suspend or disconnect the Participating Bank’s, or its agent’s, electronic access to the Reserve Bank’s systems if the Participating Bank’s access to or use of the Reserve Bank’s systems generates error conditions, causes denials or disruptions of the Reserve Bank’s systems or services, or appears to have been compromised with respect to information security or integrity. In the event of any such suspension or disconnection, the Reserve Bank and the Participating Bank will cooperate to investigate, identify, and correct the problem or problems affecting the Participating Bank’s access to and use of the Reserve Bank’s systems. The Reserve Bank will restore the Participating Bank’s access to the Reserve Bank’s systems promptly after the correction of such problem or problems.

23.15 Contingency Preparation.

- a) A Participating Bank must be prepared to meet its obligations with respect to cash items and returned checks under applicable laws and regulations in the

event that electronic access to the Reserve Bank's check service is not available.

- b) The Participating Bank must be prepared to use alternative means in the event that electronic access is not available.
- c) A contingency, including a suspension or disconnection of electronic access, may require a fall back to the transfer, presentment, or return of items in paper rather than electronic form.

23.16 Information Security.

- a) The Participating Bank and its agent, if any, agree to be bound by OC 5 Appendix A except for the paragraph in that appendix that relates specifically to credit transfers.
- b) The Participating Bank agrees that it and its agent, if any, will at all times implement a program conforming to paragraph 1.2 of OC 5 Appendix A and including all of the elements enumerated in paragraph 3.1 of that Appendix.
- c) By using electronic access to our check services, the Participating Bank and its agent, if any, agree that the security procedures offered by the Reserve Banks to the Participating Bank and its agent, if any, are commercially reasonable and that a Reserve Bank has exercised ordinary care if it complies with paragraph 1.1 of OC 5 Appendix A, including all of the elements enumerated in paragraph 2.1.

23.17 Notwithstanding any agreement between the Reserve Bank and a Participating Bank regarding the use of electronic access to the Reserve Bank's check services, the Reserve Bank and the Participating Bank may send, transfer, present, or return items to one another in paper rather than electronic form.

23.18 Access by Agent of a Participating Bank

- a) A Participating Bank may appoint an agent for accessing and using the Federal Reserve Banks' electronic systems for processing items. Such appointment must be in a form provided by the Reserve Bank and must be executed by the Participating Bank, its agent, and the Reserve Bank. The Participating Bank authorizes its agent to take any action that the Participating Bank might take regarding electronic access to the Reserve

Bank's systems and use of the services provided by the Reserve Bank under this Circular, including but not limited to:

- 1) accessing the Reserve Bank's systems for processing checks;
 - 2) sending image cash letters and image return letters on behalf of the Participating Bank to any Federal Reserve Bank;
 - 3) receiving image cash letters and image return letters from any Federal Reserve Bank;
 - 4) selecting which security procedure to use to access the Reserve Bank's systems;
 - 5) executing on behalf of the Participating Bank any security procedure agreement that the Reserve Bank may require from time to time; or
 - 6) issuing or receiving on behalf of the Participating Bank any notice, information, advice, or instruction that the Participating Bank might issue or receive with respect to the check service or electronic access to the service.
- b) The Participating Bank's agent's access to the Reserve Bank's electronic systems is governed by OC 5, as amended from time to time, and the Certification Practice Statement, as amended from time to time.
- c) The Participating Bank authorizes each of the Federal Reserve Banks to receive image cash letters and image return letters from the Participating Bank's agent, and/or to send image cash letters and image return letters to the Participating Bank's agent, and to act upon electronic checks or electronic returned checks, notices, information, and instructions sent to a Reserve Bank by the Participating Bank's agent. The Participating Bank and its agent warrant to each Reserve Bank that information contained in image cash letter or image return letter files transmitted to a Reserve Bank by the Participating Bank's agent is substantially accurate, and the agent is acting within the scope of its authority.
- d) The Participating Bank agrees that its agent:

- 1) will be granted credentials authorizing the agent to access the Federal Reserve Banks' item processing systems for the purpose of facilitating the exchange of image cash letters and image returns between the Participating Bank and the Federal Reserve Banks through the agent's electronic access to the Reserve Bank's systems;
 - 2) will use those credentials to act on behalf of the Participating Bank; and
 - 3) may use the same credentials to access the Federal Reserve Banks' check processing systems on behalf of other Participating Banks that use the same agent to access the Reserve Bank's electronic systems.
- e) The Reserve Bank is not responsible for connectivity, security, or communication between the Participating Bank and its agent. It is the responsibility of the Participating Bank and its agent to establish security and controls sufficient to assure that the agent properly identifies and handles the items, information, and instructions of a Participating Bank and segregates them from any items, information, or instructions of another Participating Banks. The Reserve Banks are not required to take, and will not take, any measures to assure that the Participating Bank's work is properly identified, handled, or segregated by the agent. The Participating Bank authorizes each Reserve Bank to rely on the agent's identification of items, information, and instructions as having been originated or authorized by the Participating Bank.
- f) The Participating Bank agrees to be bound by any acts or omissions of its agent with respect to the transfer, presentment, or return of items that are handled by a Reserve Bank.
- g) The Participating Bank authorizes its Administrative Reserve Bank to settle as provided in this Circular for items sent to or received from a Reserve Bank by the Participating Bank's agent pursuant to this Agreement, and to obtain from the Participating Bank payment as provided in this Circular for any fees owed to a Reserve Bank for check collection and return services in connection with items sent to a Reserve Bank or received from a Reserve Bank by the Participating Bank's agent.
- h) The Participating Bank agrees that the Reserve Bank may transfer, present, or return items to the Participating Bank by delivering or transmitting such items to the Participating Bank's agent.

- i) The Reserve Banks may rely on the agency appointment until it is revoked in writing and the written revocation is received by the Reserve Bank and the Reserve Banks have had a reasonable time to act on it.
- j) Any obligations regarding settlement of items that exist at the time of any termination of the agency appointment shall survive the termination of the agency appointment.
- k) The Participating Bank agrees to indemnify, defend, and hold the Reserve Banks harmless against any claim, loss, cost, or expense resulting from the acts or omissions of the Participating Bank's agent, or a Reserve Bank's acts or omissions in carrying out the instructions of the agent within the scope of the agency appointment, including but not limited to attorney's fees and expenses of litigation, except for any claim, loss, cost, or expense arising solely out of a Reserve Bank's failure to exercise ordinary care or to act in good faith.

24.0 Claims Against the Reserve Bank

24.1 Notice of Warranty Claim. A bank must give us prompt notice of a claim for breach of warranty. Unless a bank gives us notice within thirty calendar days after the bank has reason to know of the breach and of our status as a warrantor, our liability to the bank is discharged to the extent of any loss caused by the delay in giving notice of the claim, notwithstanding any longer period for requesting adjustments or filing suit.

24.2 Limitation of Actions. Section 229.38(g) of Regulation CC requires that any action for a violation of subpart C of Regulation CC, including an action for breach of warranty under Section 229.34, be brought within one year after the date of the occurrence of the violation. Section 229.56(c) of Regulation CC requires that any action for a violation of subpart D of Regulation CC, including an action for breach of warranty under Section 229.52, be brought within one year after the date on which the cause of action accrues. Section 210.6(c)(1) of Regulation J requires that action on a claim against a Reserve Bank for failure to exercise ordinary care or act in good faith under Regulation J, except as otherwise provided in Section 229.38(g) of Regulation CC, be commenced within two years after the claim accrues. Section 210.6(c)(2) of Regulation J requires that action on a claim against a Reserve Bank that arises under 210.6(b)(4) of Regulation J must be commenced within one year after the claim accrues. Any action on a claim against a Reserve Bank for breach of warranty, except as otherwise provided in Section 229.38(g) and Section 229.56(c) of Regulation CC or Section 210.6(b)(4) of Regulation J, must be commenced within three years after the claim accrues.

24.3 Forum for Action. Any action against a Reserve Bank for that Reserve Bank's acts, omissions or breaches of warranty relating to the handling of or settlement for an item must be brought (within the time limits specified in paragraph 24.2) in the United States District Court and Division where the office or branch of the Reserve Bank that allegedly committed the act, omission or breach is located.

25.0 Right To Amend

The Reserve Banks reserve the right to amend this Circular or any Appendix to this Circular at any time without prior notice

"FedLine", "FedMail" and "FedLine Web" "FedLineDirect" are registered service marks of the Federal Reserve Banks. A complete list of marks owned by the Federal Reserve Banks is available at FRBservices.org.

Appendix A: Government Checks

1. We handle checks drawn on the United States Treasury ("Government checks") as cash items under 31 CFR Part 240 (Indorsement and Payment of Checks Drawn on the United States Treasury). Government checks may be converted into electronic items or reconverted into substitute checks and may be included in a cash letter sent to the Reserve Bank for processing. As to matters relating to Government checks that 31 CFR Part 240 does not cover, Regulation J, Regulation CC, the Federal Reserve Policy on Payment System Risk, this Circular, and our published time and fee schedules apply.
2. We give credit, subject to payment in actually and finally collected funds, for Government checks at the times for posting transactions provided in the Federal Reserve Policy on Payment System Risk and in our availability schedules. After we handle Government checks as fiscal agent of the United States under Treasury requirements, the checks are subject to examination and payment by the United States Treasury.
3. Section 210.12 of Regulation J, relating to the return of cash items by paying banks, does not apply to Government checks. If the United States Treasury refuses payment of a Government check upon first examination and returns the check, or a photocopy, to us as outlined in 31 CFR Part 240, we charge back the amount of the check to the sender and credit that amount to the United States Treasury. In addition, if the United States Treasury notifies us that a payee of a recurring benefit payment has died after issuance of check, the check is not payable. We will attempt to intercept the check and return it to the presenting bank with an annotation that the payee is deceased. We have no responsibility to the sender or another owner or holder for the nonpayment and return by the United States Treasury of a Government check or photocopy. The expeditious return and notice of nonpayment requirements of Regulation CC do not apply to a Government check, and the Government is not a paying bank under Regulation CC, except for purposes of subpart D of Regulation CC.
4. The United States Treasury is generally not required to pay a Government check unless it is negotiated to a financial institution within one year after the date of issue, as provided in 31 CFR Part 240.
5. If the United States Treasury determines that a Government check has been paid over a forged or unauthorized indorsement, the United States Treasury may reclaim the amount of the check from the presenting bank or prior endorser within one year after the date of credit by this Bank, as provided in 31 CFR Part 240. This period is extended by 180 days if a timely claim is made against the Government under 31 U.S.C. 3702. Under 31 U.S.C. 3702, a claim on a Government check must be made to the issuing agency within one year after the date of issuance. Under 31 U.S.C. 3712, a civil action by the Government to enforce liability on a forged or unauthorized signature or indorsement on, or a change in, a Government check generally must be commenced within one year after presentment of the check. This period is extended by three years if the Government gives written notice of a

claim not later than one year after presentment of the check. Under 31 U.S.C. 3712, the United States Treasury may also direct this Reserve Bank to withhold from a presenting bank credit for Government checks to facilitate collection of amounts owed by the presenting bank.

Appendix B: Postal Money Orders

1. We handle postal money orders (United States postal money orders; United States international postal money orders; domestic-international postal money orders) as cash items under an agreement between the United States Postal Service and the Reserve Banks as depositaries and fiscal agents of the United States pursuant to authorization of the Secretary of the Treasury. As to matters that agreement does not cover, Regulation J, the Federal Reserve Policy on Payment System Risk, this Circular, and our published time and fee schedules apply.
2. We give credit for postal money orders at the times for posting transactions provided in the Federal Reserve Policy on Payment System Risk and in our published availability schedules. The credit to the sender becomes final when we debit the amount of the money orders against the general account of the United States Treasury under symbol numbers assigned by it.
3. The agreement between the United States Postal Service and the Reserve Banks provides that:
 - a) the United States Postal Service may make no claim against or through a Reserve Bank for refund or otherwise with respect to a postal money order debited against the general account of the United States Treasury (other than a claim based on the negligence of a Reserve Bank);
 - b) the United States Postal Service will deal directly with the bank or the party against which the claim is made; and
 - c) the Reserve Banks will assist the United States Postal Service in asserting the claim, including making any relevant evidence in their possession available to the United States Postal Service. Section 210.12 of Regulation J, relating to the return of cash items by paying banks, does not apply to postal money orders.

Appendix C: Redeemed Savings Bonds and Savings Notes

1.0 General

- 1.1** We handle redeemed Series A, B, C, D, E, EE, and I Savings Bonds and Savings Notes (“Savings Bonds”) as fiscal agents of the United States pursuant to Treasury Department Circular No. 750 (Title 31, Code of Federal Regulations, Part 321). We handle these Savings Bonds as cash items under this Circular to the extent provided in this Appendix. Notwithstanding any other language in this Circular or this Appendix, we handle Savings Bonds only as fiscal agents of the United States and not as principals.
- 1.2** Savings Bonds may be sent to us in paper form (“Paper Savings Bond”) or as an electronic image of a Savings Bond (“Imaged Savings Bond”) as described in this Appendix. While any of the Savings Bonds listed in paragraph 1.1 may be sent as Paper Savings Bonds, all Series A, B, C, D, and full sheet Series E Savings Bonds and all facsimile Savings Bonds¹¹ can only be sent to us as Paper Savings Bonds and not as Imaged Savings Bonds. Non-full-sheet Series E Savings Bonds, Series EE and I Savings Bonds, and Savings Notes may be sent to us as Imaged Savings Bonds. The Savings Bonds listed in paragraph 1.1 of this Appendix should be sent to us at a location (“Federal Reserve Processing Site”) designated by the Federal Reserve Banks from time to time. Information regarding the location(s) of the Federal Reserve Processing Site(s) is published on www.frb services.org. Savings Bonds must only be sent to us in forward collection paper or image cash letters.
- 1.3** We make no warranties with respect to the Savings Bonds we process. We give credit, subject to payment and adjustment, for Savings Bonds at the times for posting transactions provided in the Federal Reserve Policy on Payment System Risk, in this Circular, and in our published availability schedules. After we handle Savings Bonds, the Savings Bonds are subject to audit by the United States Department of the Treasury (“United States Treasury”). We make corrections and adjustments as necessary on behalf of, and as directed by, the United States Treasury. We make a correction or adjustment by notifying the sender and charging back or crediting the amount of the correction or adjustment to the sender. Additional information can be found in the Check Adjustment Quick Reference Guide.
- 1.4** Savings Bonds sent to us for processing must be encoded consistent with this Appendix. If a Savings Bond is misencoded or is not encoded, we reserve the right to reject it or to supply or repair the encoding.

¹¹ A facsimile savings bond is a paper photocopy of an original Savings Bond that has been lost, damaged or destroyed prior to being sent for processing.

- 1.5** To send Savings Bonds to us under this Appendix, a sender is required to designate a settlement account as provided in paragraph 13 of this Circular and to maintain a settlement account at all times.
- 1.6** An account holder must promptly advise us in writing of an objection to an entry or to the absence of an expected entry in any statement of account reflecting credits and fees described in this Appendix. An account holder that fails to advise us of its objection within thirty calendar days of the date of the entry is deemed to have approved the entry, and the account is deemed finally adjusted, notwithstanding any longer period for filing suit.
- 1.7** If we receive items other than those listed in paragraph 1.1 of this Appendix at a Federal Reserve Processing Site, we reserve the right to return any and all of the items to the sender.

2.0 Processing Imaged Savings Bonds¹²

- 2.1** A sender may send us an image cash letter, described in paragraph 6.1 of this Circular, that includes one or more Imaged Savings Bonds. The format of such image cash letter file and Imaged Savings Bonds must be consistent with paragraph 6.1 of this Circular and with this Appendix. Imaged Savings Bonds may be submitted in separately sorted image cash letters containing only Imaged Savings Bonds or in mixed image cash letters, containing Imaged Savings Bonds and images of other types of cash items listed in paragraph 2.1 of this Circular.
- 2.2** Imaged Savings Bonds must be submitted in an image file and include item record information that meets the specifications set forth in the Image-enabled Savings Bond Processing Quick Reference Guide, available at www.frbservices.org.
- 2.3** A sender must comply with the requirements of paragraphs 6.0 and 23.0 of this Circular when submitting Imaged Savings Bonds to us. For the purposes of this Appendix, the term “check services” within paragraph 23.0 of this Circular includes processing Imaged Savings Bonds.
- 2.4** Imaged Savings Bonds are subject to initial edits as described in the Image-enabled Savings Bond Processing Quick Reference Guide. Processing of Imaged Savings Bonds will be governed by the terms of paragraphs 6.0 and 23.0 of this Circular to the same extent as if the Imaged Savings Bonds were electronic items.

¹² See paragraph 1.2 of this Appendix for information regarding which Savings Bonds Series may be submitted for processing as Imaged Savings Bonds.

3.0 Processing Paper Savings Bonds

- 3.1** Paper Savings Bonds may be sent to us for processing at the appropriate Federal Reserve Processing Site, as designated by the Federal Reserve Banks from time to time. Information regarding the location(s) of the Federal Reserve Processing Site(s) is published on www.frbservices.org. If we receive a cash letter containing Paper Savings Bonds at a location other than the appropriate Federal Reserve Processing Site, we reserve the right to return any or all of the items contained in the cash letter to the sender or, in our discretion, we may process any of the items on a delayed schedule and charge the sender for the cost of shipping the Paper Savings Bonds to the correct site.
- 3.2** All Paper Savings Bonds must be submitted in separately sorted cash letters containing only Paper Savings Bonds and cannot be sent in mixed cash letters also containing other types of cash items listed in paragraph 2.1 of this Circular. If we receive a cash letter containing both Paper Savings Bonds and other types of cash items listed in paragraph 2.1 of this Circular, we reserve the right to return any or all of the items contained in the cash letter to the sender or, in our discretion, we may process the items on a delayed schedule.
- 3.3** Requirements related to information to be provided with cash letters containing Paper Savings Bonds and MICR-encoding for Paper Savings Bonds are set out in the Image-enabled Savings Bond Processing Quick Reference Guide.
- 3.4** We do not accept for processing at a Federal Reserve Processing Site Paper Savings Bonds that are mutilated, damaged, soiled, altered, defaced, or otherwise in a condition that all features cannot be discerned following scanning and imaging in accordance with the requirements of paragraph 6.1 of this Circular. If we receive Paper Savings Bonds in such condition at the Federal Reserve Processing Site, we reserve the right to return any such Paper Savings Bond to the sender.
- 3.5** The Reserve Banks are not liable for the loss or destruction of Paper Savings Bonds in the possession of others or in transit.

Appendix D: Foreign Cash Items

1. The Reserve Banks from time to time designate specific Federal Reserve Bank check processing offices to handle items payable in Canada, including Canadian postal money orders payable in U.S. funds, and to other specified kinds of items payable outside of a State (collectively, "foreign items"), as cash items in accordance with Regulation J, this Circular and this Appendix. An item payable in a foreign country is not deposited with a Reserve Bank until it is physically delivered to a Federal Reserve Bank check processing office that is designated to handle foreign items payable in that foreign country. This Circular is not binding on a bank outside of a State to which we or a subsequent collecting bank send a foreign cash item. For example, provisions regarding off premises presentment, payment, return, notice of nonpayment, adjustments and photocopies are not binding on a paying bank outside of a State. Foreign items may not be deposited or returned in an image cash letter or in a mixed paper cash letter. Foreign items may not be converted into electronic items or reconverted into substitute checks and may not be included in any image cash letter sent to the Reserve Bank for processing under this Circular.
2. Foreign items must be separately sorted from domestic items. We require separate sorts of foreign cash items payable in U.S. funds and those payable in foreign funds, and we may impose other requirements in our published procedures. For a foreign cash item payable in U.S. funds, we give deferred credit for the full face amount of the item in U.S. funds. For a foreign cash item payable in other than U.S. funds, we give deferred credit in U.S. funds based on the exchange rate set forth in our published procedures. Credit is available after the close of the Fedwire funds transfer system. In handling a foreign cash item, we act solely as agent for collection. The sender bears all risk of exchange rate fluctuation during the processing of a foreign cash item. Senders should recognize that credit is provisional and that the time for return of foreign items may vary under foreign law.
3. If we receive a returned foreign cash item that we have handled for collection, we, any subsequent returning bank, and the depository bank shall handle the item as a returned check under Regulations CC and J and this Circular.
4. Compliance Matters
 - a) The Reserve Bank assumes no responsibility or liability to the sending bank with respect to the sending bank's compliance or risk management obligations, including those relating to the Bank Secrecy Act or other U.S. laws, regulations, and bank supervisory guidance regarding anti-money laundering, anti-terrorism financing, fraud, customer identification programs, data security and data privacy, Office of Foreign Assets Control requirements, and mandatory consumer protections.
 - b) On a periodic basis, upon request by the Reserve Bank, each sending bank will provide the Reserve Bank with information to assist the Reserve Bank in assessing, monitoring, and managing its compliance risk related to the handling of foreign cash items. Such information may include responses to questionnaires, or answers to questions related to the Reserve Bank's monitoring for suspicious activity, or such

other information as the Reserve Bank may request from time to time for the purposes of assessing, monitoring, or managing its compliance risk. The Reserve Bank will not request any bank to provide Confidential Supervisory Information (“CSI”) as defined by each sending or receiving banks’ regulatory authorities (See 12 CFR 4.32(b), 261.2(c), and 309.5(g)(8)) for the purposes of this Appendix, and a bank may not provide CSI to the Reserve Bank in response to a request made by the Reserve Bank pursuant to this Appendix. The Reserve Bank is collecting this information as a provider of check collection and return services and not in its supervisory capacity, therefore any information submitted to the Reserve Bank in accordance with this Appendix G will not constitute CSI by virtue of the fact it is provided to the Reserve Bank.

- c)** The Reserve Bank may restrict or terminate a bank’s access to the foreign cash item service if the bank’s participation in the service poses a compliance risk that is unacceptable to the Reserve Bank. If a sending bank fails to provide information as required by this Appendix, the Reserve Bank may restrict or terminate such bank’s access to the foreign cash item service.

- d)** A sending or receiving bank that becomes subject to a public enforcement action that addresses, in whole or in part: (i) an alleged failure to comply with BSA, AML or OFAC laws, regulations or guidance; (ii) any actions or activities relating to or involving the foreign cash item service; or (iii) any other actions or activities relating to or involving cross-border payments; must notify the Reserve Bank within thirty (30) days after the effective date of any such action.

- e)** The Reserve Bank, in its sole discretion, may refuse to handle foreign items sent from or through from any bank or designated for presentment to or through any bank.

Appendix E: Truncation Services

1.0 General

- 1.1 This Appendix sets forth the terms under which we provide truncation services to a paying bank. These services generally entail the presentment of a check via electronic transmission of data obtained from the item. The check itself, or an electronic image of the check, is kept by a Reserve Bank or delivered subsequent to the presentment.
- 1.2 The services we provide under this Appendix are performed in conjunction with the services we provide pursuant to this Circular, and are also governed by Regulation J, Regulation CC, and our Operating Circular 5, entitled "Electronic Access," as amended from time to time.
- 1.3 As used in this Appendix, unless the context otherwise requires:
- a) **Copy** means an image or other reproduction of a document. An image means a digitized reproduction. A copy or an image of an eligible item includes the front and back of the item.
 - b) **Eligible Item** means a cash item drawn on, or payable at or through, the Paying Bank that (i) contains in the MICR-line the symbol, routing number or account number designating the item as an eligible item, (ii) is in an amount less than the cut-off amount, if any, agreed to by this Reserve Bank and the Paying Bank, and (iii) otherwise complies with all other eligibility requirements that we may specify. A photocopy or an electronic check can be an eligible item.
 - c) **Data**, as used in this Appendix, includes the MICR-line and other information captured from an eligible item. Except as provided in paragraph 1.3(d) below, data transmitted under this Appendix constitutes a presentment notice under the Uniform Commercial Code, and an item under the Uniform Commercial Code, Regulation J and this Circular, and may constitute a check as defined in Regulation CC.
 - d) **Paying Bank** means a paying bank that subscribes to the truncation service, and includes its agent for receiving presentment.
 - e) **Record**, when referring to data captured from an eligible item, means to reproduce the information in a form suitable for electronic transmission.

f) **Transmit or Transmission** means sending data captured from an eligible item electronically to the Paying Bank or making such data available in a file that can be accessed electronically by arrangement with the Paying Bank.

1.4 In the truncation service, we record data for each eligible item and we present the item to the Paying Bank by transmitting the data to it. We may also perform other check services for eligible items, such same-day settlement services.

2.0 Presentment

2.1 A Reserve Bank records data obtained from each eligible item and we transmit the data to the Paying Bank, together with our sequence number for each item, the total dollar amount of the items for which information is being transmitted, and the date the information was recorded. We transmit the data in accordance with our time schedule on each of our banking days that we receive an eligible item. If the Paying Bank is closed on a day that is a banking day for us, we make the data for transmission on that day in accordance with Section 210.9(b) of Regulation J.

2.2 The Paying Bank shall establish a cut-off hour no earlier than 2:00 p.m. (local time for the Paying Bank) for receipt of data. The Paying Bank shall manage its electronic connection so as to permit us to transmit data to it in a timely manner throughout the day. The data is deemed to be received at the time of transmission even if it is not actually received because of the failure of the Paying Bank to so manage its electronic connection. The Paying Bank shall give us prompt notice of its failure to receive data on a day that is a banking day for both the Paying Bank and us.

2.3 For purposes of Regulation J, Regulation CC and this Circular, the receipt of the data obtained from an eligible item by the Paying Bank constitutes presentment of the item. The Paying Bank waives any right it may have with respect to exhibition or production of an eligible item presented under this Appendix.

2.4 If we are unable for any reason to transmit the data, we may elect to handle any affected eligible items outside of the terms of this Appendix. If we elect to do so, we will handle the eligible items as cash items pursuant to this Circular and any issue relating to the items will be governed by this Circular.

3.0 Additional Functions

In addition to recording data from an eligible item and presenting the item by transmission of the data, the Reserve Bank will:

a) return an eligible item at the Paying Bank's request as provided in paragraph 4;

- b) retain an eligible item for sixty days or a longer period agreed to by us and the Paying Bank as provided in paragraph 5;
- c) retain an archive image of the eligible item for seven years as provided in paragraph 6; and
- d) respond to a request for information from the Paying Bank with respect to an eligible item as provided in paragraph 7.

4.0 Return of Eligible Items

- 4.1** If the Paying Bank wishes to return an eligible item that we presented under the truncation service, it must deliver to us an instruction to return the item. The instruction must be delivered using a method that we prescribe and must be received by us within the deadline for return set forth in the Uniform Commercial Code and Regulation J or Regulation CC. The instruction must contain the data that we transmitted to the Paying Bank with respect to the item, the date the information was recorded, our sequence number for the item, and the reason for return, but in no event will such an instruction be effective if it is received after our cut-off hour for such instructions.
- 4.2** For purposes of the Uniform Commercial Code, Regulations J and CC, and this Circular, our receipt of an instruction to return an eligible item constitutes return of the item by the Paying Bank. As a returning bank, the Reserve Bank will then return the item. A Reserve Bank will give credit in accordance with our availability schedules, to the account maintained or used by the Paying Bank for such purpose.
- 4.3** An instruction to return an item of \$5,000 or more also serves as a request for a Reserve Bank to give notice of nonpayment to the depository bank under Section 229.31 of Regulation CC. For a notice of nonpayment to be delivered to the depository bank by 2:00 p.m. local time for the depository bank, we must receive the instruction no later than the hour and the day that we specify as our cut-off for receiving such instructions.
- 4.4** A Reserve Bank assumes no responsibility for determining whether the Paying Bank has acted in a timely fashion in returning an item or providing notice of nonpayment to a depository bank.

5.0 Retention and Archival Storage of Paid Items

- 5.1** A Reserve Bank retains an image of each eligible item for sixty calendar days from the date on which we first present the item, or a longer period agreed to by us and the Paying Bank ("Retention Period"). During the Retention Period, we make the image of an eligible item available to the Paying Bank as provided herein. A Reserve Bank will not retain an image of an eligible item after

expiration of the Retention Period, unless the Paying Bank enters an agreement with us to archive the image for a longer period.

- 5.2** By agreement with the Paying Bank, the Reserve Bank may retain an archived image of an eligible item for seven years (or a longer period required by law and set forth in our procedures) from the date on which we present the item ("Storage Period"). During the Storage Period, we make an image copy available to the Paying Bank as provided herein. A Reserve Bank destroys the image copy after the expiration of the Storage Period.
- 5.3** Upon termination of services hereunder, a Reserve Bank, at our discretion, either:
- a) retains all images of items then being held for the Paying Bank for the remainder of the Retention or Storage Period; or
 - b) delivers all such images to the Paying Bank.

6.0 Requests for Information

- 6.1** During the Retention or Storage Period for an eligible item, the Paying Bank may submit a request for information with respect to the item. The request must contain the data that was transmitted to the Paying Bank to present the item, the date on which we presented the item, and our sequence number for the item. If we receive a request by our cut-off hour for such requests on a banking day for us, we will respond to the request by sending the item, a copy of the item, or the requested information to the Paying Bank by the time we specify on either that day or on our next banking day. We may respond after our next banking day if the request is received later in the retention or storage period for the item, or if the request covers a large number of items. A request for information submitted before the eligible item has been finally paid does not constitute dishonor of the item.
- 6.2** A Reserve Bank makes available an eligible item or a copy only as provided in the preceding paragraph, or in response to the order of a court of competent jurisdiction, a grand jury subpoena, or other legal process. If we believe that a Reserve Bank may be compelled to provide an item or a copy to someone other than the Paying Bank, we will notify the Paying Bank. It is the Paying Bank's responsibility to assert any defense to production. The Paying Bank is responsible for the cost of producing any item or copy as well as the cost of defending against such production.

7.0 Settlement

A Reserve Bank debits the account maintained or used by the Paying Bank for the total dollar amount of eligible items we have presented to the Paying Bank that day, as provided in Regulation J and this Circular. If a Reserve Bank does not receive payment in actually and finally collected funds for an eligible item and exercises its right of

charge-back under Section 210.13 of Regulation J, a Reserve Bank may remove the item from its retention files and return it.

8.0 Reserve Bank Warranties and Liability

- 8.1** We warrant that the data we transmit to the Paying Bank under this Appendix accurately represents the information on or in the eligible item. Notwithstanding any provision of Regulation CC or State law, we do not warrant the accuracy of the account number or check number information that we transmit to the Paying Bank. The Paying Bank is encouraged to validate the accuracy of the account number and check number information it receives from us.
- 8.2** A Reserve Bank's capturing data from an eligible item and presenting that data to the Paying Bank shall not constitute a breach of any warranty imposed by law with respect to alteration of an item. In addition, a Reserve Bank is not responsible for determining whether an eligible item is properly payable, including but not limited to determining:
- a) the genuineness of the signature of any drawer appearing on an eligible item;
 - b) whether any or all required signatures appear on an eligible item;
 - c) whether an eligible item is stale;
 - d) whether an eligible item is postdated;
 - e) whether an eligible item is properly indorsed or bears genuine indorsements;
 - f) whether a stop payment order has been issued for an eligible item; or
 - g) whether an eligible item is a photocopy and, if so, whether it has been prepared and submitted in proper fashion.
- 8.3** With respect to any claim arising out of a Reserve Bank's recording and transmission of data captured from an eligible item to a Paying Bank, the Reserve Bank's liability is governed by Regulation J. With respect to any other action taken or service performed pursuant to this Appendix, a Reserve Bank acts only as agent or subagent of the Paying Bank. The Reserve Bank is liable only to the Paying Bank and only for its breach of the warranties expressly set forth herein, or for a lack of good faith or failure to exercise ordinary care in providing the truncation service. The Paying Bank shall give us prompt written notice of any claim by or against it that may give rise to a claim against us.

- 8.4** A Reserve Bank warrants that an eligible item processed hereunder will be retained in accordance with this Appendix and will not be sent to the Paying Bank except as provided herein.

9.0 Indemnification by Paying Bank

The Paying Bank shall indemnify, hold harmless and defend a Reserve Bank from any claim, demand, loss, liability, or expense (including attorneys' fees and expenses of litigation) made against it by any person, or incurred by it, in connection with its performance of services hereunder as agent or subagent of the Paying Bank, but excluding any claim, demand, loss, liability or expense that results from the Reserve Bank's failure to exercise ordinary care or act in good faith. The Paying Bank's indemnification obligation specifically extends to, but is not limited to, claims, demands, loss, liability or expense arising in connection with any allegation that a Reserve Bank has acted as a collecting bank in handling an over-the-counter item, and shall survive the termination of services provided under this Appendix.

10.0 Fees

Fees for our truncation services are set forth in a fee schedule that we publish and amend from time to time. A Reserve Bank charges the fees to the account maintained or used by the Paying Bank.

11.0 Termination

- 11.1** We or the Paying Bank may terminate the services provided under this Appendix by giving not less than ten calendar days prior written notice to the other party. In addition, we may immediately terminate the services provided hereunder by notice to the Paying Bank, if we, in our sole discretion, determine that the financial condition of the Paying Bank poses a risk to us.
- 11.2** We may refuse to accept an item for presentment to the Paying Bank under this Appendix if we believe the Paying Bank has failed to comply with the terms of this Appendix, Regulation J, Regulation CC, or this Circular. In addition, if at any time we, in our sole discretion, determine that the amount of one or more eligible items is excessive in relation to the financial condition of the Paying Bank, we may refuse to handle any such item under this Appendix.

12.0 Miscellaneous

- 12.1** If the Paying Bank or a Reserve Bank is delayed in acting beyond the time limits under this Appendix because of interruption of communication or computer facilities, suspension of payments by a bank, war, emergency conditions, failure of equipment, or other circumstances beyond its control, the time for acting is extended for the time necessary to complete the action, if the party exercises such diligence as the circumstances require.
- 12.2** It is the responsibility of the Paying Bank to ensure that it has obtained all necessary resolutions, signature cards and authorizations from customers

whose items will be processed pursuant to this Appendix. The Paying Bank is also responsible for obtaining all necessary approvals from its Board of Directors and from the appropriate governing or regulatory bodies before receiving services hereunder.

Appendix F: Presentment Point Services

1.0 General

- 1.1 This Appendix sets forth the terms under which we provide presentment point services. Services provided hereunder are performed in conjunction with the services provided pursuant to this Circular, but are governed by this Circular only to the extent that this Appendix does not apply. These services may also be governed by our Operating Circular 5, entitled "Electronic Access."
- 1.2 **Definitions.** Unless the context otherwise requires, terms not defined in this Appendix have the meanings set forth or incorporated in Regulation J, and:
- a) **Same-Day Settlement Item** means a check (as defined in Regulation CC) presented to a Paying Bank under our presentment point service in accordance with section 229.36(d) and other provisions of Regulation CC;
 - b) **Paying Bank** means a paying bank that subscribes to the presentment point services, and includes its agent for receiving presentment.
 - c) **Transmit or Transmission** means sending information or an image electronically to a Paying Bank or making information or an image available in a file that can be accessed electronically by an arrangement with the Paying Bank. Transmission does not constitute presentment of a same day settlement item.
- 1.3 A Paying Bank may request us to perform services hereunder by submitting a written request. The procedures for the service are set forth in this Appendix and in documentation that we publish.

2.0 Description of the Service

- 2.1 **Primary Presentment Point Service.** When a Paying Bank designates one of our offices as a primary presentment point for same-day settlement items, the Paying Bank designates that office as the presentment point for all collecting banks for same-day settlement items that bear an encoded routing number of the Paying Bank. If we receive checks identified as same-day settlement checks for a Paying Bank that has not requested a presentment point service, we collect the items as fine sort cash items under this Circular. Our receipt of such checks does not constitute presentment. We will, upon request, provide a list of Paying Banks for which we act as primary presentment point. A Paying Bank that wishes to terminate its designation of us as a presentment point, should first notify collecting banks that are using us as a primary presentment point for the Paying Bank.
- 2.2 **Alternate Presentment Point Service.** When a Paying Bank designates one of our offices as an alternate presentment point for a designated collecting bank for same-day settlement items, the Paying Bank designates that office as a presentment point for checks in accordance with a separate agreement between

the Paying Bank and the designated collecting bank. If we receive checks identified as same-day settlement checks for a Paying Bank that has not requested either (a) an alternate presentment point service with respect to the collecting bank from which we receive the items, or (b) a primary presentment point service, we collect the items as fine sort cash items under this Circular; our receipt of such checks does not constitute presentment.

- 2.3 Handling of Same-Day Settlement Items.** Presenting banks should directly contact a Paying Bank that has designated us as a presentment point, prior to presenting checks at a Reserve Bank, concerning any requirements for such presentment the Paying Bank has established. All items delivered to an office of a Reserve Bank as a presentment point for a Paying Bank must be separately packaged from items delivered to us for handling under this Appendix. The package must be labeled "same-day settlement" and must designate the names of both the presenting bank and the Paying Bank. Items are considered presented to the Paying Bank only when they are delivered to the location we specify for delivery of same-day settlement items.
- 2.4** We time-stamp each package presented to a Paying Bank at its designated presentment point at a Federal Reserve Bank premises, provide verification of receipt to the presenting bank's delivery agent, and provide verification of the time of delivery to the Paying Bank. If the Paying Bank requests, we provide the enhanced service of notifying the Paying Bank concerning the identity of the presenting bank, the time of delivery, and the dollar amount of each presentment of same-day settlement items.
- 2.5** We do not act as a collecting bank in providing presentment point services to a Paying Bank. We have no responsibility for determining whether the items received comply with delivery, sorting, timeliness or other requirements of the Paying Bank, or whether the delivery complies with any separate agreement between the Paying Bank and the presenting bank. We have no responsibility for arranging delivery of the items to the Paying Bank, or for arranging for return of the items.
- 2.6** Presenting banks should not include same-day settlement items or other items presented to Paying Banks in settlement sheets listing items deposited for collection by us. If we receive checks identified as same-day settlement items by means of transportation arranged by a Reserve Bank, we collect the items as fine-sort cash items under this Circular; our receipt of such checks does not constitute presentment.
- 2.7** Unless instructed otherwise by the Paying Bank or presenting bank, the Reserve Bank will process a same-day-settlement cash letter received after 8:00 a.m. as if it were received on the next business day. In accordance with Regulation CC, however, if a same-day-settlement cash letter is received after 8:00 a.m. but before the Paying Bank's cut-off hour, under applicable law the items are treated as having been presented to the Paying Bank for purposes of the Paying Bank's midnight deadline.

2.8 Settlement and Adjustment Service. The Reserve Bank will settle for same-day-settlement items by crediting the presenting bank's settlement account and debiting the Paying Bank's settlement account. The Reserve Bank will reconcile the same-day-settlement cash letter for the items to the totals based on our processing of the items. The Reserve Bank will also process adjustments with respect to all same-day-settlement items in accordance with the Reserve Bank's adjustment procedures under the Circular. A Paying Bank that uses remains responsible for the timely return of any same-day-settlement items. The Paying Bank warrants to the Reserve Bank that it has obtained the agreement of each presenting bank that presents it with same-day-settlement items to use the Reserve Bank's settlement and adjustment service with respect to same-day-settlement items. It further warrants that it has informed each presenting bank that the presenting bank may not include any claims or allowances in same-day-settlement cash letters.

3.0 Liability

- 3.1** In providing services under this Appendix to a Paying Bank, we have no responsibility or liability to any person other than the Paying Bank, and are liable to the Paying Bank only for our own lack of good faith or failure to exercise ordinary care in providing the service. **WE EXPRESSLY DISCLAIM ALL WARRANTIES, EXPRESS, STATUTORY OR IMPLIED, WITH RESPECT TO INFORMATION WE PROVIDE, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.** The amount of our liability is limited to the amount of the eligible item, reduced by an amount which could not have been realized by the use of ordinary care, and shall not include any liability for special, incidental or consequential damages even if such damages were foreseeable at the time of the failure to exercise ordinary care or act in good faith. We do not act as a collecting bank in providing services with respect to same-day-settlement items under this Appendix, regardless of whether we indorse or provide settlement and adjustment services.
- 3.2** If we are delayed in acting beyond time limits under this Appendix because of interruption of communication or computer facilities, suspension of payments by a bank, war, emergency conditions, failure of equipment, or other circumstances beyond our control, our time for acting is extended for the time necessary to complete the action, if we exercise such diligence as the circumstances require.

4.0 Indemnification by Bank

By requesting services under this Appendix, a Paying Bank agrees to indemnify, hold harmless and defend this Reserve Bank for any claim, demand, loss, liability or expense (including attorneys' fees and expenses of litigation) made against us by any person, or incurred by us, in connection with our performance of services hereunder, but excluding any claim, demand, loss, liability or expense that results from our failure to exercise ordinary care or act in good faith. The Paying Bank's indemnification obligation specifically extends to, but is not limited to, claims, demands, loss, liability or expense

arising in connection with (i) any claim that we acted as collecting bank with respect to a same-day settlement item, regardless of whether we have indorsed the item, or (ii) any claim by a person other than the Paying Bank with respect to an item delivered to us as agent of the Paying Bank under a presentment point service. The Paying Bank's indemnification obligation shall survive termination of the services provided under this Appendix.

5.0 Records

We make available to the Paying Bank records of our processing of same-day settlement items in connection with other check services. If we believe that we may be compelled to provide such records to someone other than the Paying Bank, such as by legal process, we will notify the Paying Bank. It is the responsibility of the Paying Bank to determine whether the record should be produced, to assert any defense to such production, and to pay all associated costs.

6.0 Fees

Fees for our check services are set forth in a fee schedule that we publish and amend from time to time. A Reserve Bank charges the fees to the account maintained or used by the Bank.

7.0 Termination

We or the Paying Bank may terminate a service provided under this Appendix by giving not less than ten calendar days prior written notice to the other party.

Appendix G: Image Information Services

1.0 General Description

- 1.1 Our image information services consist of the capture or importation of electronic images of checks, storage or archiving of the images, and delivery of check image files to an Institution. The Reserve Bank offers image information services to the following kinds of Institutions:
- a) a sending bank with respect to checks that the sending bank has sent to the Reserve Bank as cash items;
 - b) a paying bank with respect to checks that the Reserve Bank has presented to the paying bank;
 - c) a depository bank with respect to returned checks that the depository bank has received from the Reserve Bank; and
 - d) any bank that maintains an account relationship with the Reserve Bank pursuant to Reserve Bank Operating Circular 1 that delivers checks or check image files to the Reserve Bank for image capture or for importation into the image archive.
- 1.2 The Institution selects specific image information services by completing the user configuration process in the image application software, or by submitting requests for image information services, whether such requests are originated manually or are originated by the Institution's automated systems. The Institution agrees to pay the Reserve Bank, in accordance with the Reserve Bank's published fee schedule as amended from time to time, for all image information services that the Institution requests and receives.

2.0 Services Included

- 2.1 **Image Capture or Importation.** The Reserve Bank may capture images of checks or may import check image files. Image files delivered for importation into the image system must conform to the Reserve Bank's technical specifications image as amended from time to time. The Reserve Bank will charge the Institution the applicable capture or importation fee for each image that is placed in the Image system at the Institution's request.
- 2.2 **Image Storage and Archiving.** The Reserve Bank may store check images online or in an offline image archive for various periods of time as agreed between the Reserve Bank and the Institution.
- 2.3 **Image Delivery.** The Reserve Bank may make images available to the

Institution through scheduled deliveries of image files on physical media or by electronic transmission of image files as described in the image system technical specifications as amended from time to time. The Reserve Bank may also make images available to the Institution by scheduled deliveries of images to an image mailbox for subsequent viewing or printing on the Institution's system. At the Institution's request, the Reserve Bank may deliver images on media to customers of the Institution. Such media may include software that enables a user of the media to display the images contained on the media. The Reserve Bank provides such software, as is, free of charge to the Institution's customer and disclaims any warranty of any kind with respect to such software. In delivering images on media to the Institution's customer, and in providing such software, the Reserve Bank acts as the Institution's agent, and the Institution hereby indemnifies the Reserve Bank and holds the Reserve Bank harmless against any loss, damage, injury, harm or claim by the Institution's customer or any third party with respect to these services.

- 2.4 Image Retrievals by the Institution.** The Institution may access image information services by means of FedLine Web®. The Institution may request that the retrieved images be transmitted to the Institution's system for online viewing and printing, or to an image mailbox for subsequent viewing or printing on the Institution's system.
- 2.5 Image Gateway Retrievals.** The Institution may configure its systems to provide its customers images that the Institution obtains from the Reserve Bank. The configuration of image gateway access must conform to technical specifications provided by the Reserve Bank, and the Institution must employ security measures for gateway access that conform, at a minimum, to any requirements established by the Reserve Bank. The Institution may provide to its customer a check image that the Institution obtains through the image information service only if the Institution's customer is a party to the check.
- 2.6 Image Manual Retrieval.** The Institution may request that the Reserve Bank manually retrieve an image for the Institution and deliver the image as a facsimile transmitted to a telephone number specified by the Institution or as an attachment to an email at an address specified by the Institution.

3.0 Reserve Bank's Responsibilities

If the Institution has ordered image information service with respect to an item that the Institution physically delivers to the Reserve Bank, the Reserve Bank will be responsible for capturing an image of an item as the item appears when it crosses the Reserve Bank's check sorters, storing the image as agreed, and making the image available to the Institution as agreed. Given the limits of check processing technology, the Reserve Bank may not be able to capture a usable image of every item. The Reserve Bank is not responsible for the content of image files that are submitted to the Reserve Bank for import into the image archive.

4.0 Image Delivery

The Reserve Bank will deliver images or image files to the Institution in the forms and at the times requested by the Institution and agreed to by the Reserve Bank pursuant to this Appendix. The Reserve Bank's responsibility for delivering files via electronic means is limited as provided in Reserve Bank Operating Circular 5.

5.0 Force Majeure

If the Reserve Bank is delayed in providing any image information service to the Institution because of interruption of communication or computer facilities, suspension of payments by a bank, war, emergency conditions, failure of equipment, or other circumstances beyond the Reserve Bank's control, the time for providing the image information service is extended by the time necessary to complete the action, if the Reserve Bank exercises such diligence as the circumstances require.

6.0 Institution Responsibility for Security

The Institution acknowledges that accessing and transmitting check images through the image information service can pose risks with regard to confidentiality and data security. Accordingly, with respect to the Institution's electronic access to the Reserve Bank's systems, the Institution agrees to comply with any information security guidelines provided by the Reserve Bank from time to time with respect to the image information service. With respect to any gateway access services that the Institution may provide to its customers, the Institution agrees to take commercially reasonable measures to protect the security of the Institution's systems and the integrity of the Institution's electronic information. The Institution also agrees to be bound by Operating Circular 5 Appendix A.

7.0 Limitation on Use

The Reserve Bank owns the images in the image archive. The Reserve Bank provides image information services to the Institution for informational purposes only and not for the purpose of making electronic deposit, presentment, or return of items, unless the Reserve Bank has agreed with the Institution to provide the truncation service in accordance with Appendix E of this Circular. The images or the information accompanying the images may not be used in any way that violates applicable laws regarding the confidentiality of nonpublic personal information. The Institution is responsible for protecting the security, integrity, and confidentiality of nonpublic personal information contained in the check images obtained from the Reserve Bank.

8.0 Liability

- 8.1** In providing the image information service under this Appendix, the Reserve Bank has no responsibility or liability to any person other than the Institution. The Reserve Bank shall be liable only for losses that result from failure by the Reserve Bank or its employees to exercise ordinary care or act in good faith in providing the image information service and only up to the amount of any fees paid to the Reserve Bank for the capture, storage, and access to an image that the Reserve Bank fails to provide as agreed herein. No claim arising under this Appendix shall include any liability for special, incidental, or consequential

damages even if such damages were foreseeable at the time of the failure to exercise ordinary care or act in good faith.

- 8.2** The Reserve Bank is not liable for any damage caused by viruses or other defects that may be introduced into the systems of the Institution or its customer as a result of using technology provided by an entity other than the Reserve Bank or technology provided by the Reserve Bank if the technology was not developed by the Reserve Bank, even if the Reserve Bank requires the use of the technology.

9.0 Indemnification

- 9.1** The Institution shall indemnify and hold harmless the Reserve Bank with respect to any claim or loss (other than losses for which the Reserve Bank is liable under section 8.1 of this Appendix), whether alleged by the Institution, any customer of the Institution, or any third party, arising in connection with the capture, storage and transmission of images in connection with the image information service. This indemnification shall survive the termination of image information services provided under this Appendix.
- 9.2** The Institution shall be responsible for all loss or damage (other than losses for which the Reserve Bank is liable under section 8.1 of this Appendix) resulting from any of the following:
- a) Failure of the Institution to maintain the confidentiality of information needed to obtain access to the image information service;
 - b) Alteration of a check image sent to or from the Reserve Bank in connection with the image information service; or
 - c) Unauthorized access by the Institution or its customer to check images.

10.0 Disclaimer of Warranties

THE RESERVE BANK DISCLAIMS ALL WARRANTIES EXPRESS, IMPLIED OR STATUTORY, AS TO ANY MATTER IN CONNECTION WITH THE IMAGE INFORMATION SERVICE, INCLUDING ALL IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. NO ORAL OR WRITTEN INFORMATION OR ADVICE GIVEN BY THE RESERVE BANK OR ITS AGENTS OR EMPLOYEES IN CONNECTION WITH THE IMAGE INFORMATION SERVICE SHALL CREATE A WARRANTY OR IN ANY WAY INCREASE THE SCOPE OF THE RESERVE BANK'S OBLIGATIONS.

11.0 Fees

For use of the image information service, the Institution shall pay fees in accordance with the applicable fee schedule as published and amended from time to time by the Reserve Bank. Fees shall be charged to the Institution and paid in the same manner that fees are charged and paid for services provided pursuant to this Circular.

12.0 Termination

The Reserve Bank or the Institution may terminate the image information service without cause at any time by providing prior notice in accordance with the written agreement between the Reserve Bank and the Institution for the image information service. In the event of such termination, or in the event of any termination for cause, the Reserve Bank, at its discretion, may either: (i) retain all image files then being stored for the Institution for the remainder of the agreed storage period; or (ii) deliver at the Institution's cost on a medium of the Reserve Bank's choosing all such image files to the Institution. If the Reserve Bank delivers the image files to the Institution, the Reserve Bank will have no continuing obligation to continue to store image files for the Institution.

13.0 Electronic Access

Electronic access to the image information service is subject to paragraph 23.0 of Operating Circular 3 and to Operating Circular 5.

Appendix H: FedPayments® Reporter Service

1.0 GENERAL

1.1 The Reserve Banks offer a FedPayments® Reporter Service (Service) that presents information related to certain items as human-readable reports and machine-readable files. The Service makes the reports available electronically as specified below. This Appendix provides the terms and conditions under which the Reserve Banks offer the Service.

2.0 DEFINITIONS

2.1 For purposes of this Appendix, Customer means a depository institution that has sent an item or returned a check to a Reserve Bank or has received an item or a returned check from a Reserve Bank. For purposes of this Appendix, “Customer” includes any authorized agent of the Customer.

2.2 Scheduled Report means an electronic record of information that was extracted from items or returned checks that were sent (or received) by Customer to (or from) a Reserve Bank under Operating Circular 3 that the Service periodically generates based on a Customer’s selection(s) from the then-current menu of Reports offered by the Reserve Banks, specifically for the purposes of the Service.

3.0 THE SERVICE

3.1 In carrying out the Service, the Reserve Banks will create and make available Scheduled Reports requested by Customer using procedures established by the Reserve Banks specifically for the purposes of the Service.

3.2 Customer may instruct the Reserve Banks using procedures established by the Reserve Banks specifically for the purposes of the Service, to make specified Scheduled Reports available to designated email addresses via an encrypted email channel that the Reserve Bank has selected and Customer has agreed to use¹³.

4.0 CUSTOMER RESPONSIBILITIES

4.1 Following procedures established by the Reserve Banks specifically for the purposes of the Service, Customer will select from available options the type(s) of Scheduled Report(s) that the Service will generate for Customer; and for each Scheduled Report, select options or provide information necessary for the Service to create the Scheduled Report.

5.0 ENCRYPTED EMAIL DELIVERY

¹³ This encrypted email delivery is subject to the terms and conditions required by the service provider for the encrypted email channel.

5.1 By designating email addresses to which Scheduled Reports will be sent, Customer is instructing the Reserve Banks to send information, which may contain personally identifiable financial information or other sensitive information, via an encrypted email channel to a person who can access the email accounts associated with the designated email addresses. Customer agrees not to designate an email address of a person or entity other than:

(a) Customer's employee, or

(b) Customer's authorized agent (or employee of Customer's authorized agent).

The Reserve Banks have no responsibility to ensure that the email addresses that Customer designates belong to any of these parties.

6.0 INDEMNITY AND LIMITATIONS ON USE

6.1 Customer will indemnify, defend, and hold the Reserve Banks harmless against any claim, loss, harm, cost or expense (including reasonable attorneys' fees and expenses of litigation) resulting from the Reserve Bank's acts or omissions in carrying out the Service under this Appendix except for any claim, loss, harm, cost, or expense arising solely out of a Reserve Bank's failure to exercise ordinary care or to act in good faith.

6.2 The Reserve Bank provides the Service to the Customer for informational purposes only and not for the purpose of making electronic deposit, presentment, or return of items. Any images or information contained in or appended to a Scheduled Report may not be used in any way that violates applicable laws regarding the confidentiality of nonpublic personal information. The Customer is responsible for protecting the security, integrity, and confidentiality of nonpublic personal information contained in any Scheduled Report.

Appendix I: FedDetectSM Duplicate Treasury Check Notifier Service

1.0 GENERAL

1.1 The Reserve Banks offer a FedDetect Duplicate Treasury Check Notifier Service (Service) that provides Customers with human-readable reports related to certain Treasury items that have been identified as potential duplicate forward Treasury checks sent to a Reserve Bank through the Reserve Banks' Check 21 application. The Service makes the reports available electronically as specified below. This Appendix provides the terms and conditions under which the Reserve Banks offer the Service.

2.0 DEFINITIONS

2.1 For purposes of this Appendix, **Customer** means a depository institution that has sent a Treasury item to a Reserve Bank. For purposes of this Appendix, "Customer" includes any authorized agent of the Customer.

2.2 Scheduled Report means an electronic record of information that was extracted from Treasury items that were deposited with a Reserve Bank under Operating Circular 3 that the Service periodically generates based on the Customer's selection(s) from the then-current menu of reports offered by the Reserve Banks, specifically for the purposes of the Service.

3.0 THE SERVICE

3.1 In carrying out the Service, the Reserve Banks will create and make available Scheduled Reports requested by Customer using procedures established by the Reserve Banks specifically for the purposes of the Service. The Service does not warrant, guarantee, promise, or make any other assurance that false positive or false negative duplicate Treasury checks will not be detected and included in the Scheduled Reports.

3.2 Customer may instruct the Reserve Banks, using procedures established by the Reserve Banks specifically for the purposes of the Service, to make specified Scheduled Reports available to designated email addresses via an encrypted email channel that the Reserve Banks have selected and Customer has agreed to use.¹

3.3 The Customer shall pay fees in accordance with the applicable fee schedule as published and amended from time to time by the Reserve Bank. Fees shall be charged to the Customer and paid in the same manner that fees are charged and paid for services provided pursuant to Operating Circular 3.

4.0 CUSTOMER RESPONSIBILITIES

4.1 Following procedures established by the Reserve Banks specifically for the purposes of the

¹ This encrypted email delivery is subject to the terms and conditions required by the service provider for the encrypted email channel.

Service, Customer shall select from available options the Scheduled Report(s) that the Service will generate for Customer and shall provide such information as may be necessary for the Service to create each such Scheduled Report.

5.0 ENCRYPTED EMAIL DELIVERY

5.1 By designating email addresses to which Scheduled Reports are to be sent, Customer is instructing the Reserve Banks to send Scheduled Reports, which may contain personally identifiable financial information or other sensitive information, via an encrypted email channel to a person who can access the email account associated with each designated email address. Customer shall not designate an email address of a person or entity other than:

- (a) Customer's employee, or
- (b) Customer's authorized agent (or employee of Customer's authorized agent).

The Reserve Banks have no responsibility to ensure that the email addresses that Customer designates belong to any of these parties.

6.0 FORCE MAJEURE

6.1 If the Reserve Banks are delayed in providing the Service to the Customer because of interruption of communication or computer facilities, suspension of payments by a bank, war, emergency conditions, failure of equipment, or other circumstances beyond the Reserve Banks' control, the time for providing the Service is extended by the time necessary to complete the action, so long as the Reserve Banks exercise such diligence as the circumstances require.

7.0 INDEMNITY AND LIMITATIONS ON USE

7.1 Customer will indemnify, defend, and hold the Reserve Banks harmless against any claim, loss, harm, cost, or expense (including reasonable attorneys' fees and expenses of litigation) resulting from the Reserve Banks' acts or omissions in carrying out the Service. Customer's indemnification obligation extends to, but is not limited to, allegations by the Customer or any third party, arising in connection with the capture, storage, and transmission of Treasury check images in connection with the Service, except for any claim, loss, harm, cost, or expense arising solely out of a Reserve Bank's failure to exercise ordinary care or to act in good faith.

7.2 The Reserve Banks provide the Service to the Customer for informational purposes only and not for the purpose of making electronic deposit, presentment, or return of items. Any images or information contained in a Scheduled Report is provided for purposes of the Service only and may not be used in any way that violates applicable laws regarding the confidentiality of nonpublic personal information. The Customer is responsible for protecting the security, integrity, and confidentiality of nonpublic personal information contained in any Scheduled Report. Customer shall be responsible for all loss or damage resulting from any of the following:

- a) Failure of the Customer to maintain the confidentiality of information need to obtain access to the Service
- b) Misuse of the information on the Treasury check image in connection with this Service, e.g., electronic deposit, presentment, return; or

- c) Unauthorized access by the Customer or any third party to the Service

8.0 Disclaimer of Warranties

THE RESERVE BANK DISCLAIMS ALL WARRANTIES EXPRESS, IMPLIED OR STATUTORY, AS TO ANY MATTER IN CONNECTION WITH THE SERVICE, INCLUDING ALL IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. NO ORAL OR WRITTEN INFORMATION OR ADVICE GIVEN BY THE RESERVE BANKS OR THEIR AGENTS OR EMPLOYEES IN CONNECTION WITH THE SERVICE CREATES A WARRANTY OR IN ANY WAY INCREASES THE SCOPE OF RESERVE BANK OBLIGATIONS.