



**Federal Reserve Banks
Operating Circular No. 3**

COLLECTION OF CASH ITEMS AND RETURNED CHECKS

Effective July 12, 2012

**FEDERAL RESERVE BANKS
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1.0 General

- 1.1 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, and our time and fee schedules (collectively "Circular") 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 includes instructions to paying, collecting, returning and depository banks for handling and paying items received from us. 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. 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.
- 1.2 Each Reserve Bank has issued a circular identical to this one, except for time and fee schedules, and provisions relating to special services.
- 1.3 The definitions of terms set forth or incorporated in Regulation J, including terms defined in 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;
 - (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) data captured from a cash item or a returned check may be sent in the form of an "**electronic item**," (as that term is defined in Regulation J). To meet the definition of an electronic item, the data must include an electronic image of a check and information describing that check and must conform to the Reserve Bank's technical requirements for processing electronic items, as amended from time to time. Data sent to a Reserve Bank in the form of an electronic item is not an "electronic item" unless the data was captured from a check. By definition, the check from which the data was captured must be paper. A "purported electronic item" means an electronic image of a check and information describing that check that are sent to the Reserve Bank to be handled as an electronic item but that fail to conform to the Reserve Bank's technical requirements for processing electronic items.

Many terms used in this Circular have specialized meanings that have developed through law, custom and commercial usage.

2.0 Items We Handle As Cash Items

- 2.1 A sender may send the following items to us, at any check processing office of a Reserve Bank listed in Regulation CC, Appendix A, 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, postal money orders, and food coupons;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 items 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 sent to us by a person other than a "sender," as defined in Section 210.2 of Regulation J.

2.3 A sender that sends data to a Reserve Bank for collection or return as an electronic item under this Operating Circular warrants to each Reserve Bank that handles the data that the data is an electronic item as described in paragraph 1.3(d) of this Circular. The sender indemnifies each Reserve Bank that handles data that the sender has sent to a Reserve Bank for collection or return as an electronic item under this Operating Circular against any loss, claim, or damage that results if the data is not an electronic item as described in paragraph 1.3(d) of this Circular. The amount of this indemnity shall be the amount of any loss (including reasonable attorney's fees and other costs or expenses of representation) proximately caused by a breach of the warranty provided under this paragraph 2.3.

2.4

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.

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. Provisions governing the collection of food coupons are contained in our circular entitled "Cash Services."

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.

3.0 Items We Do Not Handle as Cash Items

3.1 A sender should not send to us any item if:

- (a) A passbook, certificate, or other document is attached to the item;
- (b) Special instructions, including a request for special advice of payment or dishonor, accompany the item;
- (c) 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 22;
- (d) The item has not been preprinted or postencoded in accordance with the currently effective version of the American National Standard Specifications for Placement and Location of MICR Printing, X9.100-160-2004, before we receive it with: (i) the routing number⁴ 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 22;
- (e) 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 currently effective version of the American National Standard Specifications for Placement and Location of MICR Printing, X9.100-160-2004 (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 22; or
- (f) 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(f) only, the term "the item" means a check; any substitute check, electronic item, or ACH entry derived from the check; and any photocopy in lieu of that check.

3.2 We reserve the right to charge back an item if in our discretion we judge that circumstances require that it should not be handled as a cash item. We reserve the right to return an item payable by, at or through a bank that has been reported closed. We do not handle an item in the amount of \$100,000,000 or more, and we reserve the right to return items in amounts of less than \$100,000,000 that in our judgment are intended to avoid the \$100,000,000 limit. The Reserve Bank may reject a purported electronic item and reverse any provisional credit that may have been given for it.

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

3.3 If an item that we do not handle as a cash item is sent to us in a cash letter, we reserve the right, in our discretion, to charge it back and return it to the sender, 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. 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. We also reserve the discretion to return and charge back a cash letter or return letter that (i) does not conform to the sorting requirements of this Circular, (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; or (iii) contains a purported electronic item.

3.4 Address on Cash Item

If we receive a cash item that does not state on its face the name and a city and state address of the paying bank consistent with the routing number on the item as provided in this paragraph, we reserve the right (i) to refuse to handle the item, and other items bearing the same routing number, or (ii) to present or send the item to any branch or office of the paying bank consistent with section 229.36(b) of Regulation CC. An address is consistent with a routing number if the address is both located in the same Reserve Bank check processing region as the address associated with the routing number in the MICR line on the item and located in a Reserve Bank availability zone that provides the same (or slower) availability than the routing number address. We will give advance notice to a paying bank and to senders if we determine not to handle items under this paragraph, and we will give advance notice to a paying bank if we determine to present or send items to a branch or office address that is not associated with the routing number on the items.

4.0 Definitive Securities; Noncash Items

4.1 A sender may not send a definitive security to a Reserve Bank for payment except as specifically provided in Appendix C and in this paragraph 4.1. The Federal Reserve Bank of New York, as fiscal agent for certain specified obligors, provides credit to a sender for a matured obligation or coupon from an obligation of such an obligor, upon receipt of final payment from the obligor. The Federal Reserve Bank of New York maintains a list of such obligors and updates the list from time to time. A sender must follow the Federal Reserve Bank of New York's procedures for sending matured obligations or coupons for payment.

4.2 The Reserve Banks generally do not collect noncash items. A sender must not send a noncash item to a Reserve Bank for payment in the absence of (i) a written agreement to do so, or (ii) specific prior written approval of the Reserve Bank. The Reserve Banks have discontinued the service of collecting municipal bonds or coupons from such obligations. Such instruments may not be sent to a Reserve Bank for payment.

5.0 Electronic Access to the Reserve Bank's Check Services

- 5.1** 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 5. By using an electronic connection to access our check services, a bank agrees to the terms and conditions of this paragraph 5 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 5 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 Operating Circular.
- 5.2** 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.
- 5.3** 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 items, and specify the maximum volume of electronic items that the bank will send to each Reserve Bank office on any given day. A bank that wishes to receive electronic items 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 items. A Participating Bank must obtain the Reserve Bank's consent prior to sending electronic items to any Reserve Bank office that exceed the maximum daily number of electronic items previously specified by the Participating Bank, or sending electronic items to any Reserve Bank office not previously identified by the Participating Bank.
- 5.4** Delivery and Receipt of Data

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.

5.5 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.

5.6 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.

5.7 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.

5.8 For purposes of Appendix E1 paragraph 5.1, Appendix E2 paragraph 4.1, and Appendix E3, paragraph 6.1, the Reserve Bank's electronic connection is a method that the Reserve Bank prescribes for delivering an instruction to return an item.

5.9 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.

5.10 The Reserve Bank is not obligated to retain copies of electronic items or to make copies of electronic items 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.)

5.11 Disruptions in Electronic Services

- (a) Problems with hardware, software, or data transmission may disrupt the operation of electronic access to the Reserve Bank's check services. If for any reason we determine that we are unable to provide check services through electronic access, we will promptly notify Participating Banks. We may elect to transfer, present, or return any items in physical rather than electronic form. Disruptions in services provided to a Participating Bank by its telecommunications service provider or its internet service provider may prevent the Participating Bank from obtaining electronic access to the Reserve Bank's check services. The 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.
- (b) The Reserve Bank bears no responsibility for the accessibility, reliability, or speed of the connection provided to a Participating Bank by its Internet service provider or telecommunications service provider.
- (c) 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.

5.12 Time and Place of Sending of Files via Electronic Access

An item, notice, message, instruction, or acknowledgement that is sent 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.

5.13 Time and Place of Receipt of Files via Electronic Access

An item, notice, message, instruction, or acknowledgement that is sent 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.

5.14 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 cash items to one another in paper rather than electronic form.

5.15 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 collecting and returning electronic 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 access the Reserve Bank's systems for processing checks, to send image cash letters and image return letters on behalf of the Participating Bank to any Federal Reserve Bank and/or to receive image cash letters and image return letters from any Federal Reserve Bank, to select which security procedure to use to access the Reserve Bank's systems, and to execute on behalf of the Participating Bank any security procedure agreement that the Reserve Bank may require from time to time. The Participating Bank's agent's access to the Reserve Bank's electronic systems is governed by Reserve Bank Operating Circular 5, as amended from time to time, and the Certification Practice Statement, as amended from time to time.

- (b) 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 items, information, and instructions sent to a Reserve Bank by the Participating Bank's agent that the agent identifies as having been authorized by the Participating Bank. The Participating Bank warrants 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.
- (c) The Participating Bank agrees that: (i) its agent 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; (ii) its agent will use those credentials to act on behalf of the Participating Bank; and (iii) its agent 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. 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 other Participating Banks. The Federal 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.
- (d) The Participating Bank agrees to be bound by any acts or omissions of its agent with respect to the transfer, presentment, or return of electronic items that are handled by a Federal Reserve Bank.
- (e) The Participating Bank authorizes its Administrative Reserve Bank to settle as provided in this Operating Circular 3 for electronic 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 Operating Circular 3 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.

- (f) The Participating Bank agrees that the Reserve Bank may present or return items to the Participating Bank by delivering or transmitting such items to the Participating Bank's agent.
- (g) The Reserve Banks may rely on the agency appointment until it is revoked in writing and the written revocation is received by the Participating Bank's Administrative Reserve Bank and the Reserve Banks have had a reasonable time to act on it.
- (h) 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.
- (i) 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.

6.0 Preparation of Cash Letters and Return Letters

6.1 Paper Cash Letters and Return Letters

All 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: any item in a carrier envelope; any noncash paper item covered by paragraph 4 of this Circular; a food coupon; a foreign cash item; a photocopy of a lost or destroyed item that is submitted to the Reserve Bank pursuant to section 22 of this Circular; or a notice in lieu of return that is submitted to the Reserve Bank pursuant to section 229.30(f) 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.

- 6.2** 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 indorser 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.

- 6.3** The sender of each electronic 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.
- 6.4** A sender (or paying or returning bank) that sends or returns to the Reserve Bank a substitute check or an electronic item 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.
- 6.5** 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
- 6.6** Indorsements
- All cash items and returned checks sent to us must be indorsed in accordance with the requirements of Section 229.35 and Appendix D 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(d) of Regulation J by sending a returned check), whether or not the item bears our indorsement. Indorsements on electronic items must comply with ANSI Draft Standard for Trial Use X9.37-2003, as interpreted and applied by the Federal Reserve publication "DSTU X9.37 (2003) FRB User Document," as amended from time to time.
- 6.7** Responsibility for Back of Check
- (a) We reserve the right to refuse to accept a deposit of a check or electronic

item if in our judgment the back of the check at the time of the deposit adversely affects our or another bank's ability to indorse the check legibly in accordance with Section 229.35 and Appendix D of Regulation CC. If we do accept the check or electronic item, the depositor is responsible for the condition of the back of the check, 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 check 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 and Appendix D 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.

7.0 Image Cash Letters and Image Return Letters

- 7.1 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 American National Standard Institute’s Draft Standard for Trial Use X9.37-2003 (Specifications for electronic exchange of check and image data), as interpreted and applied by the Federal Reserve publication “DSTU X9.37 (2003) FRB User Document,” as amended from time to time, subject to the provisions of this Circular.
- 7.2 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 5 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.
- 7.3 The Reserve Bank will handle as a cash item an electronic item sent to the Reserve Bank in an image cash letter, or as a returned check an electronic item 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 an electronic item derived from any item in a carrier envelope, any noncash item covered by paragraph 4 of this Circular, a food coupon, a foreign item, a photocopy of a missing or destroyed item that is submitted to the Reserve Bank pursuant to paragraph 22 of this Circular, or a notice in lieu of return that is submitted to the Reserve Bank pursuant to section 229.30(f) of Regulation

CC.

7.4 Wherever this Circular refers to the MICR line, as applied to an electronic item this shall mean the data contained in the fields in the electronic item that are designated to contain data derived from the contents of the MICR line. Wherever this Circular refers to the front or face of a check or the back of a check, as applied to an electronic item this shall mean the image of the front or face of the check or the image of the back of the check.

7.5 We do not have any responsibility for delay in handling an electronic item that we (or any party to which we transfer, present, or return the electronic item) cannot process because of any defect in the electronic 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 electronic 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.

7.6 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 5.4 of this Circular, after the Reserve Bank performs the initial edits.

7.7 Rejected Electronic Files or Electronic Items

- (a) The Reserve Bank may reject, and charge back our sender for, an electronic file or purported electronic 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, purported electronic 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 purported electronic 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 purported electronic item that fails the item level edits. A charge back for a purported electronic item that fails our edits is not subject to the minimum adjustment amount specified in the Adjustments Quick Reference Guide.

- 7.8** 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 electronic 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 electronic item that fails the Reserve Bank's item level edits.
- 7.9** The Reserve Bank is not responsible for electronic items, image cash letters or image return letters that are lost in transmission.

8.0 Sending of Items to Any 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) to any Reserve Bank at any check processing office of that Reserve Bank listed in Regulation CC Appendix A, unless directed otherwise 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

9.1 Immediate Credit and Deferred Credit

For all items that we accept as cash items or returned checks in accordance with our published time schedules and , the Federal Reserve Policy on Payment System Risk,⁵ the sender's (or the paying or returning bank's) Administrative Reserve Bank gives immediate or deferred credit, as follows:

- (a) Immediate credit at once qualifies as reserve for purposes of Regulation D in accordance with our circular entitled "Account Relationships" and is available for use by the sender (or the paying or returning bank) at one float-weighted posting time per time zone for most cash items, unless the sender (or the paying or returning bank) has chosen a unique set of fractions for each of the four time zones under our

⁵ See "Federal Reserve Policy Statement on Payment System Risk," Fed. Res. Reg. Svc. ¶ 9-1000, available online at www.federalreserve.gov/paymentsystems/psr_policy.htm.

procedures. Credit for separate sorts of Government checks, postal money orders, and redeemed savings bonds is given in accordance with our published time schedules and the Federal Reserve Policy on Payment System Risk. . Credit for nonmachineable cash items and foreign items is available after the close of the Fedwire^{®6} Funds Service in accordance with our published time schedules and the Federal Reserve Policy on Payment System Risk..

- (b) The amount entered as deferred credit does not qualify as reserves for purposes of Regulation D in accordance with our circular entitled "Account Relationships" and is not available for use by the sender (or the paying or returning bank) until the day specified in our time schedules and the posting time referred to in paragraph (a).

9.2 Because in many instances our time schedules do not show the actual time required for collection or return, advices of credit cannot be considered advices of actual payment on the dates credit is made available. In addition, in some instances credit shown in an account balance monitor during a day does not reflect credit available for purposes of the Board's policy on daylight overdraft measurement. A Reserve Bank may charge back credit given for an item if it does not receive payment in actually and finally collected funds. A Reserve Bank also may refuse to permit a sender (or the paying or returning bank) to withdraw or otherwise use any credit (immediate or deferred), and may defer availability of credit, for a period of time that is reasonable under the circumstances, including a reasonable time for it to receive notice that another bank seeks to recover from it under Section 229.35(b) of Regulation CC.

9.3 For cash letters that we receive unsorted as to credit availability, credit may be deferred according to our time schedule for a mixed cash letter. For items sent with a Reserve Bank's permission to a relay station, credit is given based upon receipt of the items at the Reserve Bank. A Reserve Bank has no responsibility for an item lost in transit between a relay station and the Reserve Bank.

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. In the case of an electronic item, "on the item" means in the electronic image of the item or in the electronic information accompanying the electronic image of the item. 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.

⁶ Fedwire and FedMail are registered service marks of the Federal Reserve Banks.

- 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.

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 agreement, by MICR presentment as provided in Appendices E, E1, E2, and E3 of this Circular, or by presentment of electronic items as provided in paragraph 11.5 or 11.6 of this Circular,
- 11.3** Presentment by Physical Delivery
- We may present items at any location contemplated by section 229.36 of Regulation CC. A paying bank may request us to send cash items to an off premise location, or it 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. A paying bank that desires that cash items be sent to an off premise location in a different Federal Reserve check processing region from that where the paying bank must accept the items under Section 229.36(b) of Regulation CC, must arrange to transport them at its own expense.
- 11.4** 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.
- 11.5** Image Cash Letter Containing Both Data and Images
- The Reserve Bank may present an electronic item to a paying bank that agrees to be an “Electronic Receiver,” as provided in section 4.0 of Appendix G of this Circular, by transmitting or delivering to the paying bank an image cash letter containing the electronic 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.
- 11.6** Image Cash Letter with Informational Images to Follow
- The Reserve Bank may present an electronic item to a paying bank that agrees to be an “Electronic Receiver,” as provided in section 4.0 of Appendix G of this Circular, by (a) 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 electronic 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 electronic 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.

11.7 SDS Items Presented to an "Electronic Receiver"

If a bank agrees to be an Electronic Receiver and also designates the Reserve Bank as its presentment point for Same Day Settlement items, 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 Electronic Receiver an information-only electronic file.

11.8 Paying Bank's Responsibilities

- (a) It is the responsibility of the paying bank to monitor its account activity at the Reserve Bank. If accounting entries indicate that the paying bank has been debited with respect to a cash letter that the paying bank believes it has not received, it is the responsibility of the paying bank to notify the Reserve Bank immediately.
- (b) 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.
- (c) 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.

- 11.9** The Reserve Bank does not warrant that an image cash letter or electronic 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 electronic 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 electronic item.

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 receives⁷ from us and does not return within the deadline in that section. Settlement shall be made at par and by:

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

12.2 Section 210.9(b) of Regulation J refers to the Reserve Banks' operating circulars for the earliest settlement time, which is 11:00 a.m. Eastern Time. Accordingly, the proceeds of any settlement must be available to the paying bank's Administrative Reserve Bank by the later of

- (a) the next clock hour that is at least one hour after the paying bank receives the item (but no later than 3:00 p.m. local time); or
- (b) 11:00 a.m. Eastern Time.

If presentment to the paying bank is delayed beyond the normal presentment time for any reason, and the paying bank desires that a charge to its account be deferred, it should immediately notify the Reserve Bank from which it received the item.

12.3 Paying Bank Closes Voluntarily

As provided in Section 210.9(b)(3) of Regulation J, a paying bank that closes voluntarily on a day that is a banking day for a Reserve Bank, so that the paying bank does not receive a cash item on that day, shall either settle for the amount of a cash item made available on that day, or compensate its Administrative Reserve Bank for the value of the float associated with the item and settle for the amount of the item on the next day that is a banking day for both the paying bank and a Reserve Bank. The proceeds for any settlement must be available to its Administrative Reserve Bank on either the day the cash item is made available or on the next day by the later of:

- (a) the next clock hour that is at least one hour after the paying bank ordinarily would receive the item (but no later than 3:00 p.m. local time); or
- (b) 11:00 a.m. Eastern Time.

A list of standard Reserve Bank holidays, and of other holidays not considered voluntary ("mandatory nonstandard holidays"), is set forth in our time schedule. A Reserve Bank may charge the account on its books maintained or used by the paying bank for the amount of the item on the day we make the item available, unless the paying bank elects to compensate its Administrative Reserve Bank for the float associated with the item. An item is available to the paying bank if we deliver it or are prepared to deliver it as if the paying bank were open. A paying bank that pays for an item made available to it, or compensates for the float

⁷ 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.

associated with the item, is not considered to receive the item until its next banking day, such as for purposes of determining the deadline for return of the item. We do not charge a paying bank on a mandatory nonstandard holiday for items made available on that day.

12.4 Reserve Bank Closed

If the paying bank's banking day of receipt is not a banking day for a Reserve Bank, settlement shall be made on the Reserve Bank's next banking day in accordance with Section 210.9(b)(4) of Regulation J. The proceeds of any settlement must be available to the paying bank's Administrative Reserve Bank on such next banking day by the later of:

- (a) the next clock hour that is at least one hour after the paying bank ordinarily would receive the item (but no later than 3:00 p.m. local time); or
- (b) 11:00 a.m. Eastern Time.

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 Before sending a cash item or returned check to, or receiving a cash item or returned check from any Reserve Bank, a sender (or a paying, returning or depositary bank) should 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). See Operating Circular 1, Appendix 5. If the sender or bank designates a correspondent bank's account, the correspondent bank must agree to that designation. If the account is on the books of another Reserve Bank, the other Reserve Bank must not object to the designation. A sender (or a paying, returning or depositary 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. Unless a paying bank (or a sender, returning bank or depositary bank) makes other arrangements for settlement, a Reserve Bank may charge against the bank's (or sender's) account the amount of a cash letter or item that the bank (or sender) receives from us.

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, returning or depositary bank) with respect to its correspondent bank, if any (or of an intermediary correspondent bank that is not an account holder, if any, with respect to its correspondent bank).
- 13.5** The sender (or a paying, returning or depositary bank) may terminate a settlement designation 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 (or an intermediary correspondent that is not an account holder, if any) 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 Corrections; Adjustments

- 14.1** A paying or depositary bank may request a correction to its settlement for our cash letter or return letter by notifying us of an error in the letter. A paying bank may also request a correction if the paying bank returns an item on the banking day of receipt by the time set forth in Section 210.9(b) of Regulation J and notifies us of the return. Reserve Bank Operating Circular 1, entitled "Account Relationships" provides for corrections of accounting errors. The Check Adjustments Quick Reference Guide (which the Reserve Banks revise from time to time) specifies the types of adjustments that Reserve Banks handle and the requirements and timeframes for submitting different types of adjustment requests. The Guide also describes 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 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. Requirements for certain warranty claims and for missing or destroyed items are specified in paragraph 15.2 and paragraphs 20, 21 and 22 of this Circular. We generally do not process corrections or adjustments for amounts less than the minimum adjustment amount specified in the Adjustments Quick Reference Guide, as amended from time to time.

- 14.2** 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. Banks that use a FedLine connection to submit, receive or respond to adjustment requests are bound by the terms of Operating Circular 5, Electronic Access, and by the terms of this Circular, including Appendix H entitled “Electronic Check Adjustments and the Documents to Follow Archive.”
- 14.3** With respect to any adjustment request, the Reserve Bank may require the bank submitting the request to provide documentation that the Reserve Bank deems to be sufficient to support the request. If original documentation is required to support an adjustment request (see the Check Adjustment Quick Reference Guide for documentation requirements), the bank requesting the adjustment agrees to deliver the originals to the Reserve Bank handling the adjustment request. If the adjustment request does not require the submission of original documents, then a bank may deliver supporting documentation by facsimile or via mail in accordance with the instructions of the Reserve Bank. A bank submitting documentation in support of an adjustment request 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 by the close of the fifth business day following the business day that the adjustment case is opened. An adjustment request may be processed by the requesting bank’s Administrative Reserve Bank or by another Reserve Bank at the request of the Administrative Reserve Bank.
- 14.4** The Reserve Bank typically acknowledges an adjustment request by generating an entry or sending an acknowledgement by the close of the next banking day after receipt of the request. A bank that receives neither an entry nor an acknowledgement should contact the Reserve Bank.
- 14.5** Adjustments Initiated by Reserve Bank
- The Reserve Bank may initiate an adjustment when the Reserve Bank discovers an error. If the Reserve Bank makes such an adjustment it will advise the bank of the amount and reason for the adjustment.

15.0 Time Limits and Locations for Claims and Actions

15.1 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. 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.

15.2 Notice of Warranty Claim

A bank must give us prompt notice of a claim for breach of warranty (see paragraph 20, footnote 9). 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.

15.3 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(d)(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(d)(2) of Regulation J requires that action on a claim against a Reserve Bank that arises under 210.6(b)(3) 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)(3) of Regulation J, must be commenced within three years after the claim accrues.

15.4 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 15.3) 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.

16.0 Missent Cash Items

- 16.1** 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, the bank may request an adjustment. 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.

- 16.2** A check, as defined in Section 229.2 of Regulation CC, or an electronic item as defined in section 210.2(i)(2) of Regulation J, that contains the routing number of a bank is considered to be payable by the bank, even if the check or electronic 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.

17.0 Returned Checks

- 17.1** 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 229.30(c) of Regulation CC and the Uniform Commercial Code (see paragraph 20, footnote 9). 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 (see paragraph 20, footnote 9). A bank shall not intermingle returned checks with cash items except as provided in paragraph 6.5. The following kinds of items may be sent to the Reserve Bank only in a return letter containing only items of the kinds listed here: any item in a carrier envelope; any noncash item covered by paragraph 4 of this Circular; a food coupon; a foreign cash item; a photocopy of a lost or destroyed item that is submitted to the Reserve Bank pursuant to section 22 of this Circular; or a notice in lieu of return that is submitted to the Reserve Bank pursuant to section 229.30(f) 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.
- 17.2** 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) agrees to indemnify 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.
- 17.3** We do not by this Circular, or otherwise, agree to handle a returned check more

expeditiously than is required by Section 229.31 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.

17.4 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 229.30(b) or 229.31(b) 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.

17.5 Preparation of Returned Checks

A paying bank shall clearly write or stamp on the face of a returned check that it is a returned check and the reason for nonpayment as provided in Section 229.30(d) of Regulation CC, or if the return item is an electronic item, shall indicate the return reason code in accordance with ANSI Draft Standard for Trial Use X9.37-2003, as interpreted and applied by the Federal Reserve publication "DSTU X9.37 (2003) FRB User Document," as amended from time to time. 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 6 - 8 apply to the preparation and sending of, and the availability of credit for, returned checks.

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

- (a) the amount of a qualified returned check encoded in magnetic ink or in the appropriate field in an electronic return 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 in magnetic ink on a qualified returned check or in the appropriate field in an electronic return item; 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 nonmachineable 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.

17.7 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 send returned checks to a location on an existing Reserve Bank courier route in appropriate cases, or will arrange shipment as otherwise agreed with the depository bank. A depository bank may also arrange to pick up returned checks at our premises.

17.8 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.

17.9 Electronic Return of an Image Return Letter

The Reserve Bank may return an item to a depository bank, or prior collecting bank, that is an "Electronic Receiver" by returning an image return letter containing an electronic image of the item and electronic data related to the item. 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.

17.10 Responsibilities of Depository Bank or Prior Collecting Bank

- (a) It is the responsibility of the depository bank or prior collecting bank to monitor its account activity at the Reserve Bank. If accounting entries indicate that the depository bank or prior collecting bank has been debited for an image return letter or electronic return item that the depository bank or prior collecting bank believes it has not received, it is the responsibility of the depository bank or prior collecting bank to notify the Reserve Bank immediately.
- (b) If a depository bank or prior collecting bank is unable to process an image return letter or electronic return item 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 return item that the bank has received a file or item that it cannot process.
- (c) 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.

17.11 The Reserve Bank does not warrant that an image return letter or electronic return item 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 return 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 return letter or electronic return item.

17.12 Payment for Returned Checks

A depository bank must pay its Administrative Reserve Bank in accordance with Section 229.32(b) of Regulation CC for a returned check that it has received from us.⁸ 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(h) of Regulation J by the times set forth in paragraph 12 of this Circular, 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.

17.13 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) cash;
- (c) wire transfer; or
- (d) in the discretion of the depository bank's Administrative Reserve Bank, any other form of settlement.

Adjustments for returned checks are governed by paragraphs 14, 20, and 21 of this Circular.

17.14 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.

17.15 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, the bank shall promptly send the item back to us in a specially marked "NOI RETURN LETTER" with a request for credit. Alternatively, the bank may send us an adjustment request (clearly marked that the item was not deposited at the bank). The adjustment request must include the returned check if it is available, or 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.

⁸ 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.

18.0 Notice of Nonpayment

- 18.1** A paying bank that determines to return a check as defined in Regulation CC in the amount of \$2,500 or more must provide notice of nonpayment to the depository bank under Section 229.33 of Regulation CC. The paying bank must ensure that the notice is received by the depository bank by 4:00 p.m. (local time for the depository bank) on the second business day following the banking day on which the check was presented to the paying bank. If the day the paying bank is required to provide notice is not a banking day for the depository bank, the notice must be received by the depository bank on its next banking day.
- 18.2** A paying bank may provide notice of nonpayment by any reasonable means, including:
- (a) return of the returned check to the depository bank;
 - (b) telephone call, or telex or other form of telegraph to the depository bank; or
 - (c) return of the returned check to us, telephone call or FedLine Web-Check notification to us, or the Fedwire® funds transfer system to the depository bank, with a request that we forward notice of nonpayment, as provided in this paragraph.
- 18.3** Notice of Nonpayment Services
- (a) A paying bank may request us to provide notice of nonpayment on its behalf from a returned check (physical item service). The request shall apply to all returned checks in the amount of \$2,500 or more for which notice of nonpayment is required, that are received by our cut-off hour on a Reserve Bank banking day, and that are separately sorted and identified as checks for which notice is desired. 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 notice of nonpayment given by telephone to us (telephone notice service). The request shall apply to all returned checks for which notice of nonpayment is telephoned to us and received by our cut-off hour on a banking day for us.
 - (c) A paying bank may request us to forward to the depository bank notice of nonpayment given by Fedwire® system in proper format, and received by our cutoff hour on a banking day for us (Fedwire® System service).
 - (d) A paying bank may request us to forward to the depository bank notice of nonpayment by FedLine Web-Check message received by our cut-off hour on a banking day for us.
- 18.4** Under our notice of nonpayment services, for a returned check or notice received by our applicable cut-off hour on a Reserve Bank banking day, we will provide notice of nonpayment to the depository bank by 4:00 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 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 229.33 of Regulation CC. For a returned check or notice received after our applicable 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.

18.5 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.

18.6 Other Provisions

Notice of nonpayment need not be given for a returned check drawn on the U.S. Treasury, for a U. S. Postal Service money order, or for a check drawn on a state or a unit of general local government that is not payable through or at a bank. Notice of nonpayment need not be given for a check deposited in a depository bank that does not maintain transaction accounts.

18.7 If a paying bank provides or requests us to provide a notice and subsequently determines to pay an item, the paying bank should provide to the depository bank a second notice as soon as reasonably possible. The second notice should indicate that it is a second notice canceling a previous notice and should contain all the information in the original notice, to enable the depository bank to match the second notice with the original notice.

18.8 A depository bank that uses an electronic link with us for purposes of wire transfers of funds under Subpart B of 12 CFR Part 210 is deemed to authorize us to provide notice to it by means of that link, or by means of another electronic link we have agreed to. We are not responsible for a delay in sending a notice if the delay results from the depository bank's failure to manage its link so as to permit us to send notices to it through the close of the Fedwire[®] funds transfer system. We may record telephone calls in connection with a notice of nonpayment.

18.9 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.

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

19.0 Charges

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

20.0 Adjustments for Certain Warranty Claims; Errors

20.1 The Reserve Bank may adjust a bank's account if a bank has a claim against us based on alleged breach of certain warranties or an alleged error, with respect to a cash item or returned check received from us.⁹ We do not perform adjustments with respect to every kind of claim, but only those specifically covered by paragraphs 20-22 of this Circular. The Check Adjustments Quick Reference Guide (which the Reserve Banks revise from time to time) specifies the types of adjustments that Reserve Banks handle and the requirements and timeframes for submitting different adjustment requests. 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. A bank that seeks an adjustment from us, must request the adjustment in accordance with this Circular and in accordance with our instructions for submitting adjustment requests.

20.2 In handling any claim form under this Circular, we determine only that the form is submitted timely and is substantially complete, unless the claim is against the Reserve Bank only and does not pass through to another bank. We assume no responsibility for determining whether the statements made in the form 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. We undertake to handle an adjustment claim and make entries within a reasonable time after receipt, but not within the timeframe for handling an item.

20.3 Claim of Forged or Missing Indorsement or Alteration

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 give the Reserve Bank prompt notice of such a claim and should submit the claim to the Reserve Bank together with appropriate documentation, including an affidavit of forged or unauthorized indorsement or alteration. Except as specifically provided by law, 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 (see footnote 9) for that or any other reason.

20.4 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 229.30(c) of Regulation CC)¹⁰ 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

⁹ The warranties that we make with respect to cash items and returned checks are set forth in Sections 210.6(b) and 210.12(d) of Regulation J and Sections 229.34 and 229.52 of Regulation CC, except as otherwise provided in our operating circulars. The principal warranties that banks make to us 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.

¹⁰ 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 §4-302 and Regulation J §210.12(a)), except as the deadline may be extended under Section 229.30 (c) of Regulation CC. This deadline applies to checks returned with entry for any reason, including forged endorsement or forged drawer signature.

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.

20.5 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:
 - (i) state that the paying bank returned the check within its deadline under the Uniform Commercial Code and Regulation J or Section 229.30(c) of Regulation CC, and
 - (ii) 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.

20.6 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.

20.7 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 depository bank.

20.8 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 depository bank, if a Reserve Bank receives a statement as provided below from the paying or depository bank, within twenty banking days after the Reserve Bank charged the paying or depository bank for the undercoding claim. The statement must be in a format we prescribe that is signed by an officer of the paying or depository bank, and:

- (a) state that the paying or depository 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.

20.9 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 20.6 - 20.8. A claim of a missing or destroyed item should be made under paragraph 22. A claim relating to any other cash letter listing error should be made as provided in paragraph 14.
- (b) A paying bank should handle an item that contains the routing number of the bank as provided in paragraph 16 of this Circular, whether or not the routing number was encoded in error after the issuance of the item.
- (c) Notwithstanding Section 229.34 of Regulation CC or state law, we make no

warranties with respect to the encoding of an account number or item number, other than a warranty that we make pursuant to section 229.52 of Regulation CC or section 210.6(b) or 210.12(e) of Regulation J. A paying bank is encouraged to validate the accuracy of an encoded account number or item number, particularly when it was encoded after the issuance of the item.

20.10 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 set forth in Section 229.34(d) 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.¹¹
- (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 20.10 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.
- (e) If the Reserve Bank receives a properly completed adjustment request and all required supporting documentation within the timeframe specified under this subparagraph 20.10, 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

¹¹ 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(g).

to time. The requesting bank's Administrative Reserve Bank will revoke a credit provided to the requesting bank under this subparagraph 20.10 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 20.10, the requesting bank agrees to relieve the Reserve Banks of any liability for a breach of the warranty in Section 229.34(d) 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(d) of Regulation CC with respect to the check.

20.11 Expenses

In handling adjustments under this paragraph, a Reserve Bank does not have any responsibility or liability with respect to interest cost or expenses incurred by another bank as a result of breach of warranty or negligence, nor does a Reserve Bank charge another bank a fee for interest cost or expenses in handling adjustments under this paragraph resulting from breaches of warranty or negligence.

20.12 Pass-Through Warranty Claims

When a request for adjustment involves a warranty made by us to the bank that requests the adjustment and a warranty made to us by another bank, we will handle the claim against the other bank in accordance with this Circular. If the claim against the other bank (other than a Reserve Bank) is denied, the bank requesting the adjustment from us 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. A bank must not attempt to recover on a warranty claim by including the item in a cash letter or return letter (or an image cash letter or image return letter) after the return deadline (see paragraph 20.4, footnote 9). A bank that receives a credit adjustment relating to a warranty claim must pass the benefit of the adjustment through to its customer if the customer is entitled to a similar adjustment.

20.13 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 Certain Claims With Respect to Electronic Items or Substitute Checks

21.1 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)(2) or section 210.12(e)(ii) or (iii) 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)(2) or section 210.12(e)(ii) or (iii) 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.

21.2 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)(ii)(A) or section 210.12(e)(iii)(B)(1) 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.

21.3 Expedited Recredit Claims

- (a) This paragraph 21.3 varies the expedited interbank recredit procedures established by section 8 of the Check 21 Act and section 229.55 of Regulation CC, 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 § 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 reconverting 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.
- (d) If the Reserve Bank recredits a bank pursuant to a claim made under paragraph 21.3(b) for which the Reserve Bank sent a notice under paragraph 21.3(c), or pursuant to a claim made with respect to a substitute check that the Reserve Bank created while handling an item sent to us pursuant to paragraph 2 or 3 of Appendix G, the Reserve Bank will on the same business day debit the account of the bank to which we sent the notice or from which we received the item pursuant to paragraph 2 or 3 of Appendix G.
- (e) If the Reserve Bank debits the account of a bank pursuant to paragraph 21.3 (d) and that bank subsequently provides the Reserve Bank the original check or a sufficient copy of the original check, the Reserve Bank will forward the original check or sufficient copy to the claimant bank and will request that the claimant bank agree to recredit the bank that provided the original check or sufficient copy of the original check.

21.4 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. This paragraph does not apply to a request by a Reserve Bank for an original check or a sufficient copy under paragraph 21.3 of this Circular.

21.5 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 paragraphs 21.1 or 21.2 and sending the claim, along with documentation supporting the claim, to the Check Adjustments Department of the Reserve Bank.

21.6 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 21.6, 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.

21.7 Reservation of Rights

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

22.0 Missing or Destroyed Cash Items and Returned Checks

22.1 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.

22.2 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.

22.3 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 22.2, either the Reserve Bank may prepare and present to the paying bank a photocopy of the lost or destroyed item as provided in paragraph 22.4, or the sender's Administrative Reserve Bank will charge back to the sender the amount of the cash item.

22.4 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:

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.

- (e) By sending a photocopy to the Reserve Bank under this paragraph without the legend required by subparagraph 22.4(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.

22.5 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, subject to the restrictions set forth in paragraphs 6.1 and 17.1 of this Circular and in paragraphs 2 and 3 of Appendix G. 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.

- 22.6** 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.

- 22.7** 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 (see paragraph 18.4, footnote 9). 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.

22.8 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.

22.9 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.

22.10 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.

22.11 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 22.10, either the Reserve Bank may prepare and return to the depository bank a photocopy of the lost or destroyed item as provided in paragraph 22.12, 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 22.14.

22.12 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.

22.13 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 229.33 of Regulation CC. We handle such a legible photocopy as a returned check, subject to the restrictions in paragraph 17.1, if it is prepared for automated handling and sent in a return letter. We will also handle such a photocopy as an adjustment within 20 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 22.11 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 22.4. 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 has only the limited right to refuse a copy as provided in paragraph 22.9.

- 22.14** 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 restrictions in paragraph 17.1, 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.

- 22.15** 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.

23.0 Cut-Off Hour

- 23.1** 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.

24.0 Right To Amend

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

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, this Circular, and our time schedules apply.
2. We give immediate credit, subject to payment in actually and finally collected funds, for Government checks as provided in our time 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. We may reimburse a sender for its reasonable costs of reconstructing a Government check cash letter lost or destroyed in transit between Federal Reserve offices.
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 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 indorser 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 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, this Circular, and our time schedules apply.
2. We give immediate credit for postal money orders as provided in our time schedules. The credit becomes final as between us and the sender 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 Bonds¹² 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 set out on www.frbervices.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 immediate credit, subject to payment and adjustment, for Savings Bonds as provided in our time 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. For example, a Pricing Error Adjustment (PEA) will be made when the United States Treasury identifies a difference between the redemption amount it calculates and the amount it was charged for the bond. Other types of corrections and adjustments that may be made include, but are not limited to, Non-Conforming Items (NCIs) for items deposited as images or Non-Cash Items (NCHs) for items deposited as paper, duplicate items (PAIDs), requests for original items or sufficient copies (OSCRs), and other entries in error (ERRs). 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 submitted in separately sorted cash letters are not subject to cash item deposit/processing charges. Savings Bonds submitted in a mixed cash letter are subject to cash item deposit/processing charges.

¹² 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 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.
- 1.6 You are required to designate a settlement account as provided in paragraph 13 of this Circular and to maintain a settlement account at all times in order to send Savings Bonds to us under this Appendix.
- 1.7 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.
- 1.8 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 Bonds¹³

- 2.1 A sender may send us an image cash letter, described in paragraph 7.1 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 7.1 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 Savings Bond Processing Quick Reference Guide, available at www.frbservices.org.
- 2.3 A sender must comply with the requirements of paragraphs 5.0 and 7.0 of this Circular when submitting Imaged Savings Bonds to us. For the purposes of this Appendix, the term “check services” within paragraph 5.0 of this Circular includes processing Imaged Savings Bonds.
- 2.4 Imaged Savings Bonds are subject to initial edits as described in the Savings Bond Processing Quick Reference Guide. Processing of Imaged Savings Bonds will be governed by the terms of paragraphs 5.0 , 6.3 and 7.0 of this Circular to the same extent as if the Imaged Savings Bonds were electronic items.

3.0 Processing Paper Savings Bonds

¹³ See paragraph 1.2 of this Appendix for information regarding which Savings Bonds Series may be submitted for processing as Imaged 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 set out 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 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 7.1 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 cash letter sent to the Reserve Bank for processing under paragraph 2 or 3 of Appendix G.
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 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 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.

Appendix E: MICR Presentment Services

1.0 General

- 1.1 This Appendix sets forth the terms under which we provide certain MICR presentment services to a paying bank. These services generally entail the presentment of a check via electronic transmission of data obtained from its MICR-line. The check itself, or an electronic image of the check, is kept by a Reserve Bank or delivered subsequent to the MICR presentment. We may also, from time to time, offer other MICR presentment services by special agreement.
- 1.2 This Appendix constitutes a special collection agreement as authorized by Regulation J and an electronic presentment agreement as authorized by Regulation CC. The services we provide under this Appendix are performed in conjunction with the services we provide pursuant to our Circular entitled "Collection of Cash Items and Returned Checks" ("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 a microfilm, 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 item can be an eligible item. **Eligible item** includes MICR-line information with respect to such an item that we receive from another Reserve Bank.
 - (c) **MICR-line information** means the information included in the MICR-line on an eligible item. Except as provided in paragraph 1.3(d) below, MICR-line information transmitted under this Appendix constitutes a presentment notice under the Uniform Commercial Code, and an item under the Uniform Commercial Code, Regulation J and our Circular, and may constitute a check as defined in Regulation CC.
 - (d) **over-the-counter item** means an eligible item that has already been presented to the Paying Bank, and that is delivered to us for processing under this Appendix. The electronic transmission of MICR-line data obtained from an over-the-counter item does not constitute presentment of the item, and we are not a collecting bank with respect to such item.
 - (e) **Paying Bank** means a paying bank that subscribes to a MICR presentment service, and includes its agent for receiving presentment.
 - (f) **record**, when referring to MICR-line information on an eligible item, means to reproduce the information in a form suitable for electronic transmission
 - (g) **transmit** or **transmission** means sending MICR-line information electronically to the Paying Bank or making such information available in a

file that can be accessed electronically by arrangement with the Paying Bank.

- 1.4 In each MICR presentment service, a Reserve Bank records MICR-line information for each eligible item and we present the item to the Paying Bank by transmitting to it the recorded MICR-line information. A Reserve Bank may also perform other check services for eligible items, such as repair or key entry services, fine sort services and same-day settlement services. The special procedures for each MICR presentment service are set forth in this Appendix and in documentation that we may publish.
- 1.5 MICR presentment that is made pursuant to Appendix E, E1, E2, or E3 of this Circular does not constitute the presentment of “electronic items” as described elsewhere in this Circular.

2.0 Basic Service

- 2.1 A Reserve Bank records MICR-line information obtained from each eligible item and we transmit the information 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 MICR-line information 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 information available 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 MICR-line information. The Paying Bank shall manage its electronic connection so as to permit us to transmit MICR-line information to it in a timely manner throughout the day. MICR-line information is deemed to be received at the time of transmission 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 MICR-line information 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 our Circular, the receipt of MICR-line information obtained from an eligible item (other than an over-the-counter 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 MICR-line information, 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 (other than over-the-counter items) as cash items pursuant to our Circular entitled "Collection of Cash Items and Returned Checks" and any issue relating to the items will be governed by that Circular.

3.0 Settlement

- 3.1** A Reserve Bank debits the account maintained or used by the Paying Bank for the total dollar amount of eligible items whose MICR-line information we have transmitted to the Paying Bank that day, as provided in Regulation J and our 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.

4.0 Reserve Bank Warranties and Liability

- 4.1** We warrant that MICR-line information we transmit to the Paying Bank under this Appendix accurately represents the information inscribed on the MICR-line of the eligible item or contained in the MICR fields in an eligible electronic item, except as provided in this paragraph. If a Reserve Bank repairs or key enters MICR-line information for an eligible item because it has difficulty in recording the information, we warrant only that such MICR-line information accurately represents the amount and routing number information as it appears on the 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. If another Reserve Bank records the MICR-line information that we transmit to the Paying Bank, the other Reserve Bank makes the same warranty to us.
- 4.2** A Reserve Bank's recording, transmitting, repairing or key entering MICR-line information 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; and
 - (g) whether an eligible item is a photocopy and, if so, whether it has been prepared and submitted in proper fashion.
- 4.3** With respect to any claim arising out of a Reserve Bank's recording and transmission of MICR line information 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 that transmits the MICR-line information to the Paying Bank is liable only to the Paying Bank and only for its breach of the warranties expressly set forth herein, or for the lack of good faith or

failure to exercise ordinary care of another Reserve Bank that records the MICR-line information. If another Reserve Bank records the MICR-line information that we transmit to the Paying Bank, the other Reserve Bank is liable only to us, and only for its breach of the warranties expressly set forth herein, or for its own lack of good faith or failure to exercise ordinary care. 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.

5.0 Reject Repair Services

- 5.1** At the request of a Paying Bank the Reserve Bank will perform repair services with respect to the data contained in the MICR line of eligible items presented to the Paying Bank. The Reserve Bank may repair or key enter MICR line information because: (i) the MICR line on an item is difficult to read; (ii) the MICR data from an item causes the item to fail a standard Reserve Bank edit routine; or (iii) the MICR data causes an item to fail an edit that the Reserve Bank performs at the Paying Bank's request, applying criteria specified by the Paying Bank to which the Reserve Bank has agreed.
- 5.2** In performing MICR repair or key entry services, the Reserve Bank acts as the Paying Bank's agent. The Reserve Bank makes no warranties of any kind with respect to such services and hereby expressly disclaims any warranties or indemnities that arise by operation of law, except to the extent that any such warranty or indemnity cannot be disclaimed as a matter of law.
- 5.3** The Reserve Bank's repairing or key entry of MICR line information on an item pursuant to this paragraph does not constitute an alteration of an item and does not breach any warranty with respect to alteration of an item.
- 5.4** With respect to any action that the Reserve Bank takes to carry out a Paying Bank's instruction with respect to MICR repair or key entry services under this paragraph, the Reserve Bank shall be liable only to the Paying Bank, only for the Reserve Bank's lack of good faith or failure to exercise ordinary care, and only for the amount of damage actually caused by the Reserve Bank's failure to perform the requested service with good faith or ordinary care, but in no event shall the Reserve Bank's liability exceed the amount of any fees paid to the Reserve Bank by the Paying Bank specifically for the MICR repair or key entry service during the one month period immediately preceding the transaction or occurrence that gives rise to the claim for damages.

6.0 Indemnification by Paying Bank

- 6.1** 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.

7.0 Fees

- 7.1** Fees for our MICR presentment 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.

8.0 Termination

- 8.1** 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.
- 8.2** We may refuse to accept an item for MICR presentment to the Paying Bank if we believe the Paying Bank has failed to comply with the terms of this Appendix, Regulation J, Regulation CC, or our 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.

9.0 Miscellaneous

- 9.1** 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.
- 9.2** 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 E1: Truncation Service

1.0 General

- 1.1 This Appendix, together with our Appendix E entitled "MICR Presentment Services" sets forth the terms of our Truncation Service.

2.0 Service Description

- 2.1 For a Paying Bank subscribing to our Truncation Service, a Reserve Bank will, in addition to recording MICR-line information from an eligible item and presenting the item by transmission of the MICR-line information:
- (a) return an eligible item at the Paying Bank's request (paragraph 5);
 - (b) retain an eligible item for sixty days or a longer period agreed to by us and the Paying Bank (paragraph 6);
 - (c) retain a microfilm or image copy of the eligible item for seven years (paragraph 6); and
 - (d) respond to a request for information from the Paying Bank with respect to an eligible item (paragraph 7).

3.0 Definitions

- 3.1 In addition to the definitions set forth in the Appendix, unless the context otherwise requires:
- (a) **instruction to return** means a notice of dishonor or nonpayment; and
 - (b) **request for information** means a request that we: (i) provide additional information with respect to an eligible item, (ii) transmit a facsimile or image copy of an eligible item, or (iii) make available an eligible item or a copy thereof.

4.0 Copies

- 4.1 A Reserve Bank makes a microfilm or image copy of the front and back of each eligible item.

5.0 Return of Eligible Items

- 5.1 If the Paying Bank wishes to return an eligible item that we presented under a MICR presentment 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 MICR-line information 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.

- 5.2** For purposes of the Uniform Commercial Code, Regulations J and CC, and our 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.
- 5.3** An instruction to return an item of \$2,500 or more also serves as a request for a Reserve Bank to give notice of nonpayment to the depository bank under Section 229.33 of Regulation CC. For a notice of nonpayment to be delivered to the depository bank by 4:00 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.
- 5.4** 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.

6.0 Retention of Paid Items

- 6.1** A Reserve Bank retains an eligible item that has not been returned for sixty calendar days from the date on which we first transmit the MICR-line information, or a longer period agreed to by us and the Paying Bank ("Retention Period"). During the Retention Period, we make the eligible item available to the Paying Bank as provided herein. If the eligible item is an electronic item, we make a copy of the item available to the Paying Bank as provided herein. A Reserve Bank destroys the eligible item after expiration of the Retention Period, unless the Paying Bank requests us to deliver the eligible item or a copy of the eligible item to it because it desires to retain it for a longer period.
- 6.2** A Reserve Bank retains a microfilm or image copy 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 first transmit the MICR-line information ("Storage Period"). During the Storage Period, we make the microfilm or image copy available to the Paying Bank as provided herein. A Reserve Bank destroys the microfilm or image copy after the expiration of the Storage Period.
- 6.3** Upon termination of services hereunder, a Reserve Bank, at our discretion, either:
- (a) retains all items and microfilm or image copies of items then being held for the Paying Bank for the remainder of the Retention or Storage Period; or
 - (b) delivers all such items and copies to the Paying Bank.

7.0 Requests for Information

- 7.1** 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 recorded MICR-line information, the date the information was

recorded, 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.

- 7.2** 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 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.

8.0 Warranty

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

Appendix E2: MICR Presentment Plus Service

1.0 General

- 1.1 This Appendix, together with an Appendix E, entitled "MICR Presentment Services" sets forth the terms of our MICR Presentment Plus Service under which we ship an eligible item (or, if the eligible item is an electronic item, we ship a copy of the item) to a Paying Bank an agreed number of days (more than one day) after MICR presentment is made.

2.0 Service Description

- 2.1 For a Paying Bank subscribing to our MICR Presentment Plus Service, a Reserve Bank will, in addition to recording MICR-line information from an eligible item and presenting the item by transmission of the MICR-line information:
- (a) return an eligible item at the Paying Bank's request (paragraph 4);
 - (b) ship the eligible item to the Paying Bank (paragraph 5);
 - (c) respond to a request for information with respect to an eligible item (paragraph 6); and
 - (d) if requested by the Paying Bank, and agreed to by us, retain a microfilm or image copy of the eligible item for seven years as provided in Appendix E1.

3.0 Definitions

- 3.1 In addition to the definitions set forth in the Appendix, unless the context otherwise requires:
- (a) instruction to return means a notice of dishonor or nonpayment; and
 - (b) request for information means a request that we: (i) provide additional information with respect to an eligible item, (ii) transmit a facsimile or image copy of an eligible item, or (iii) make available an eligible item or a copy thereof.

4.0 Return of Eligible Items

- 4.1 If the Paying Bank wishes to return an eligible item that we have presented electronically, but that we have not yet shipped to the Paying Bank, 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 Regulations J and CC, but in no event will an instruction be effective if it is received after our cut-off hour for such instructions. The instruction must contain the MICR-line information 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.

- 4.2** For purposes of the Uniform Commercial Code, Regulations J and CC, and our Circular, our receipt of an instruction to return an eligible item constitutes return of the item by the Paying Bank if we receive the instruction prior to the time specified in paragraph 4.1. As a returning bank, a 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** A properly submitted instruction to return an item of \$2,500 or more also serves as a request for a Reserve Bank to give notice of nonpayment to the depository bank under Section 229.33 of Regulation CC. For a notice of nonpayment to be delivered to the depository bank by 4:00 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 Shipment of Items

- 5.1** We will ship an eligible item processed under this Appendix to the Paying Bank an agreed number of days (more than one day) following the day on which we transmitted the MICR-line information with respect to the item to the Paying Bank.

6.0 Requests for Information

- 6.1** A Paying Bank may request information with respect to an eligible item if we receive the request no later than our cut-off hour for such requests. The request must contain the recorded MICRline information from the item, the date the information was recorded, and our sequence number for the item. We will respond to the request by sending the copy, item or information to the Paying Bank by the time we specify on either the banking day of receipt of the request 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.

7.0 Item Not Available

- 7.1** The Paying Bank is advised that after a prescribed time on an agreed number of days following the day we transmit MICR-line information with respect to an eligible item, the item may be in transit between our office and the Paying Bank, or may otherwise be unavailable, and the item and the information it contains may not become available until the Paying Bank actually receives the item.

- 7.2** If the Paying Bank does not, for any reason, receive an eligible item (or, if the eligible item is an electronic item, a copy of the item) that has been presented electronically, we will, on request, assist the paying Bank in requesting a copy of the item from a prior collecting bank.

Appendix E3: Basic MICR Presentment Service

1.0 General

- 1.1 This Appendix, together with the Appendix E entitled "MICR Presentment Services" sets forth the terms of our Basic MICR Presentment Service under which an eligible item is shipped to a Paying Bank on the day, or on the day after, MICR presentment is made.

2.0 Service Description

- 2.1 For a Paying Bank subscribing to our MICR Presentment Service, a Reserve Bank will, in addition to recording MICR-line information from an eligible item and presenting the item by transmission of the MICR-line information:
- (a) ship the eligible item to the Paying Bank (paragraph 4);
 - (b) respond to a request for information with respect to an eligible item (paragraph 5); and
 - (c) if requested by the Paying Bank, and agreed to by us, retain a microfilm or image copy of the eligible item for seven years as provided in Appendix E1.

3.0 Definitions

- 3.1 In addition to the definitions set forth in the Appendix, unless the context otherwise requires, **request for information** means a request that we: (i) provide additional information with respect to an eligible item, (ii) transmit a facsimile or image copy of an eligible item, or (iii) make available an eligible item or a copy thereof.

4.0 Shipment of Items

- 4.1 We will ship an eligible item (or, if the eligible item is an electronic item, a copy of the item) processed under this Appendix to the Paying Bank on the day, or on our banking day following the day, we transmit MICR-line information with respect to the item to the Paying Bank.

5.0 Requests for Information

- 5.1 A Paying Bank may request information with respect to an eligible item if we receive the request no later than our cut-off hour for such requests before we ship the item to the Paying Bank. The request must contain the recorded MICR-line information from the item, the date the information was recorded, and our sequence number for the item. 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 the banking day of receipt of the request or on our next banking day. A request for information submitted before the eligible item has

been finally paid does not constitute dishonor of the item.

6.0 Item Not Available

- 6.1** The Paying Bank is advised that after a prescribed time on the day we transmit MICR-line information with respect to an eligible item, the item may be in transit between our office and the Paying Bank, or may otherwise be unavailable, and the item and the information it contains may not become available until the Paying Bank actually receives the item. The Paying Bank's deadline for return of an item is not extended because the item and the information it contains does not become available to the Paying Bank until after that deadline. In such a case, the Paying Bank would be required to determine whether to return the item without access to the item and the information it contains. If the Paying Bank determines to return the item, it must send to us an instruction to return the item setting forth the MICR-line information 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 the return. The instruction must be delivered by a method we prescribe and must be received by us within the deadline for return set forth in the Uniform Commercial Code and Regulations J and CC, and by our cut-off hour for instructions to return. We will give credit to the Paying Bank, and trace the item and charge it back to our prior indorser.
- 6.2** If the Paying Bank does not, for any reason, receive an eligible item (or, if the eligible item is an electronic item, a copy of the item) that has been presented electronically, we will, on request, assist the Paying Bank in requesting a copy of the item from a prior collecting bank.

Appendix F: Other Check Services

1.0 General

1.1 This Appendix sets forth the terms under which we provide certain check services to certain banks. These services include electronic check information services, MICR enhancement services, image services and presentment point services. Other check services that we may provide from time to time are also governed by the terms of this Appendix, unless otherwise provided by special agreement. Services provided hereunder are performed in conjunction with the services provided pursuant to our Operating Circular 3, entitled "Collection of Cash Items and Returned Checks" ("Circular"), but are governed by that 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) **eligible item** means a cash item deposited at, drawn on, or payable at or through, a Bank, and that complies with the eligibility requirements we specify;
- (b) For purposes of this Appendix only, **Bank** means a bank that subscribes to a check service hereunder, and includes its agent for receiving items, information or images;
- (c) **fine sort item** means an eligible item included in a fine sort cash letter;
- (d) **image** means a digitized representation of the front and back of an eligible item, including a photocopy or computer generated reproduction of the image;
- (e) **MICR-line information** means the information inscribed in the MICR-line on an eligible item;
- (f) **nonmachineable item** means an eligible item that has been rejected from automated processing equipment;
- (g) **over-the-counter item** means an eligible item that has been deposited at at depository Bank, or has already been presented to a paying Bank, and that is delivered to us for processing under this Appendix. We do not act as a collecting bank with respect to any service that we provide pursuant to this Appendix F related to such an item;
- (h) **record** means to reproduce MICR-line information in a form suitable for electronic transmission;
- (i) **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(f) and other provisions of regulation CC;
- (j) **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 an item except as provided in Appendix E.

- 1.3 A Bank may request us to perform services hereunder by submitting a written request. The procedures for each service are set forth in this Appendix and in documentation that we publish.

2.0 Electronic Check Information Services

2.1 Key Account Totals Service

We prepare a listing of the total dollar amount and number of eligible items that we process each banking day for each customer account that the Bank designates. If requested, we also include the total dollar amount and number of fine sort items, nonmachineable items, same-day settlement items and over-the-counter items. We provide this listing in paper form or by electronic connection, facsimile or telephone. If requested, we reject items with missing or unreadable account numbers, or we may provide repair or key entry services.

2.2 MICR Information Service

We record MICR-line information from eligible items that we process each banking day. If requested, we also include information from fine sort items, nonmachineable items, same-day settlement items and over-the-counter items. We provide the information to the Bank on magnetic tape or by transmission, usually when we send the items. If requested, we reject items with missing or unreadable account numbers, tran code or auxiliary on-us field, or we may provide repair or key entry services.

2.3 Selected MICR Account Information

We provide the MICR Information Service for accounts or ranges of accounts that the Bank designates.

3.0 MICR Enhancement Services

3.1 Custom Pocket Sort

We provide a separately sorted cash letter for each customer account that the Bank designates.

3.2 Account Number Verification

We use a mathematical algorithm supplied by the Bank to test the accuracy of MICR-line information, and provide the results to the Bank.

4.0 Presentment Point Services

4.1 Primary Presentment Point Service

When a Bank designates one of our offices as a primary presentment point for

same-day settlement items, the 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 Bank that is associated with the check processing region of the designated office. 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 our 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.

4.2 Alternate Presentment Point Service

When a Bank designates one of our offices as an alternate presentment point for a designated collecting bank for same-day settlement items, the 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 our Circular; our receipt of such checks does not constitute presentment.

4.3 General

Collecting banks should directly contact a paying Bank that has designated us as a presentment point, prior to presenting checks at this Reserve Bank, concerning any requirements for such presentment the paying Bank has established. All items delivered to an office of this Reserve Bank as a presentment point for a paying Bank must be separately packaged from items delivered to us for collection. 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.

- 4.4** We time-stamp each package presented to a paying Bank at our premises, provide verification of receipt to the presenting bank's delivery agent, store the items for pick-up by the paying Bank, 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 collecting bank, the time of delivery, and the dollar amount of each presentment of same-day settlement items.
- 4.5** 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 collecting bank. We have no responsibility for arranging for settlement or adjustment by the paying Bank for items presented, for arranging delivery of the items to the paying Bank, or for arranging for return of the items.
- 4.6** Collecting 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, such as the Check Relay network, we collect the items as fine-sort cash items under our Circular; our receipt of such checks does not constitute presentment.
- 4.7** Unless instructed otherwise by the paying bank or collecting 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.
- 4.8** Settlement and Adjustment Service. Notwithstanding Section 4.5 of Appendix F , if requested by a paying Bank that uses one or more of the other check services described in this Appendix, the Reserve Bank will settle for same-day-settlement items that are eligible items by crediting the collecting 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 of the settlement for the same-day-settlement items that are eligible items in accordance with the Reserve Bank's adjustment procedures under Operating Circular No. 3. A paying Bank that uses the Settlement and Adjustment Service 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 collecting 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 collecting bank that the collecting bank may no longer include any claims or allowances in same-day-settlement cash letters.

5.0 Liability

- 5.1 In providing services under this Appendix to a Bank, we have no responsibility or liability to any person other than the Bank, and are liable to the 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 over-the-counter or same-day-settlement items under this Appendix, regardless of whether we indorse or provide settlement and adjustment services for the over-the-counter items.
- 5.2 We do not verify customer account information, MICR-line information or special sorts we provide to a Bank. It is the Bank's responsibility either to validate the accuracy of such information or sorts before relying on it or providing it to its customer, or to advise its customer that the information has not been verified.
- 5.3 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.

6.0 Indemnification by Bank

- 6.1 By requesting services under this Appendix, a 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 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 or an over-the-counter item, regardless of whether we have indorsed the item, or (ii) any claim by a person other than the Bank with respect to an item delivered to us as agent of the Bank under a presentment point service. The Bank's indemnification obligation shall survive termination of the services provided under this Appendix.

7.0 Records

- 7.1 We make available to the Bank records of our processing of same-day settlement items and over-the-counter items in connection with other check

services. If we believe that we may be compelled to provide such records to other than the Bank, such as by legal process, we will notify the Bank. It is the responsibility of the Bank to determine whether the record should be produced, to assert any defense to such production, and to pay all associated costs.

8.0 Fees

- 8.1** 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.

9.0 Termination

- 9.1** We or the 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: “Check 21” Services

1.0 General

This Appendix sets forth the terms and conditions under which we provide certain check services described herein. Except as specifically provided in this Appendix, the services provided pursuant to this Appendix are subject to the terms and conditions of Operating Circular 3.

2.0 Paper Cash Letters Designated for Accelerated Processing

- 2.1** A sending bank may send to the Reserve Bank certain cash letters in paper form, specially identified for accelerated processing under this Appendix. The Reserve Bank will provide credit for cash items contained in such specially designated cash letters on a schedule published by the Reserve Bank and amended from time to time. This schedule may provide for later deposit deadlines or earlier credit availability for such specially designated cash letters than for other paper cash letters sent to the same Reserve Bank office. In most instances, the Reserve Bank will accomplish such accelerated processing by converting the items into electronic items and thereafter presenting them to paying banks either as electronic items or as substitute checks.
- 2.2** With respect to each cash item contained in each cash letter designated for accelerated processing and sent to the Reserve Bank under this Appendix, the sending bank makes to the Reserve Bank the following warranties and indemnity, in addition to any warranties or indemnities made by the sending bank pursuant to the Uniform Commercial Code, Regulation CC, Regulation J, and Operating Circular 3.
- (a) The sending bank warrants with respect to each item contained in each cash letter designated for accelerated processing and sent to the Reserve Bank that:
- (i) the item is a “check” within the meaning of Regulation CC;
 - (ii) if the item has a strip attached, the MICR information on the strip includes all of the information that was contained in the MICR line of the original check, except that the MICR information on the strip may include additional information reflecting the amount of the check, and, if the item is a substitute check, may reflect any changes required or permitted by part 229, subpart D of Regulation CC for substitute checks; and
 - (iii) no party will receive a transfer, presentment, or return of, or otherwise be charged for, a paper or electronic representation of the item such that the party will be asked to make payment based on an item it already has paid.
- (b) With respect to each item contained in each cash letter designated for accelerated processing and sent to the Reserve Bank under this Appendix, the sending bank agrees to indemnify the Reserve Bank for the amount of

any loss, claim, or damage that the Reserve Bank incurs for an indemnity that the Reserve Bank makes under any applicable law, regulation, Reserve Bank Operating Circular, or agreement in connection with a substitute check or electronic item subsequently created by a Reserve Bank, except to the extent that any such loss was caused by the Reserve Bank's lack of ordinary care or failure to act in good faith.

- (c) An item in a carrier may not be included in a cash letter designated for accelerated processing.

3.0 Cull of Items Designated for Accelerated Processing

3.1 A sending bank may request that the Reserve Bank provide accelerated processing for all cash items above a specified dollar amount sent to the Reserve Bank by the sending bank in paper cash letters. Items above the specified amount will be culled and processed separately from items below the specified amount. The Reserve Bank will provide credit for the culled items on a schedule published by the Reserve Bank and amended from time to time. This schedule may provide for earlier credit availability for such cash items culled pursuant to this Appendix than for other paper cash items sent to the same Reserve Bank office.

3.2 With respect to each item that is culled pursuant to this Appendix, the sending bank makes to the Reserve Bank the following warranties and indemnity, in addition to any warranties or indemnities made by the sending bank pursuant to the Uniform Commercial Code, Regulation CC, Regulation J, and Operating Circular 3.

- (a) The sending bank warrants with respect to each culled item for which the sending bank receives accelerated credit pursuant to this agreement that:
 - (i) the item is a "check" within the meaning of Regulation CC;
 - (ii) if the item has a strip attached, the MICR information on the strip includes all of the information that was contained in the MICR line of the original check, except that the MICR information on the strip may include additional information reflecting the amount of the check, and, if the item is a substitute check, may reflect any changes required or permitted by part 229, subpart D of Regulation CC for substitute checks; and
 - (iii) no party will receive a transfer, presentment, or return of, or otherwise be charged for, a paper or electronic representation of the item such that the party will be asked to make payment based on an item it already has paid.
- (b) The sending bank, with respect to each culled item for which the sending bank receives accelerated credit pursuant to this Appendix, agrees to indemnify the Reserve Bank to which the sending bank sends the item for the amount of any loss, claim, or damage that the Reserve Bank incurs for an indemnity that the Reserve Bank makes under any applicable law, regulation, Reserve Bank Operating Circular, or agreement in connection with a substitute check or electronic item subsequently created by a Reserve Bank that converts or reconverts the item that was sent by the sending bank, except to the extent that any such loss was caused by the Reserve Bank's lack of ordinary care or failure to act in good faith.

- (c) An item in a carrier may not be included in a cash letter sent to a Reserve Bank for handling under this paragraph.

4.0 “Electronic Receiver” Services

4.1 The Reserve Bank offers discounted pricing on certain check processing services to banks that become “Electronic Receivers” by agreeing to accept presentment or return of items under one of the services identified below.

4.2 By agreeing to become an “Electronic Receiver,” the bank designates its presentment point for electronic items and for items presented by MICR presentment, and its return point for electronic items, 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 electronic items and for items presented by MICR presentment, 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 image cash letters or image return letters by means of an electronic connection to the Reserve Bank’s systems, as provided in Operating Circular 3 and Operating Circular 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 electronic items and for items presented by MICR presentment, 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 image cash letters or image return letters by means of an electronic connection to the Reserve Bank’s systems, as provided in Operating Circular 3 and Operating Circular 5.

4.3 FedReceiptSM Service

A bank may become an “Electronic Receiver” by agreeing to accept from the Reserve Bank presentment of electronic items contained in image cash letters as provided in Operating Circular 3, or to accept returns of electronic items in image return letters as provided in Operating Circular 3. Under this service, the Reserve Bank will typically present or return to the bank as electronic items only items that the Reserve Bank has received in electronic form. Items that the Reserve Bank has received in paper form will typically be presented or returned to the bank in paper form.

4.4 FedReceipt Plus Service

A bank may become an “Electronic Receiver” by agreeing to accept from the Reserve Bank presentment of electronic items contained in image cash letters as provided in Operating Circular 3. Under this service the Reserve Bank will present to the bank as electronic items both forward items that the Reserve Bank

received in electronic form and forward items that the Reserve Bank received in paper form, except items that the Reserve Bank is unable to convert from paper into electronic items.

4.5 MICR Presentment for “Electronic Receivers”

A bank may become an “Electronic Receiver” by agreeing to accept MICR presentment of any item drawn on the bank, as provided in Appendix E of Operating Circular 3 and either in Appendix E1 (Truncation Service), or Appendix E2 (MICR Presentment Plus), or Appendix E3 (MICR Presentment), and by also agreeing to the following terms:

- (i) The bank subscribes to FedImageSM informational services, including image capture and seven years of archival storage, with respect to every item presented to the bank using MICR presentment;
- (ii) Notwithstanding the provisions in Appendix E2 and E3 that require the Reserve Bank to ship eligible items to the bank, the Reserve Bank will ship to the bank only eligible items that the presenting Reserve Bank received in paper form. With respect to any eligible item that the presenting Reserve Bank receives in electronic form, the Reserve Bank will not ship the eligible item but will provide to the bank a copy of the eligible item upon request; and
- (iii) With respect to any item that the Reserve Bank has presented to the bank pursuant to this appendix G, the bank will not require or request that the Reserve Bank ever create a substitute check to provide to the bank.

4.6 Presentment Point Services for “Electronic Receivers”

If a bank agrees to become an Electronic Receiver and also agrees to receive presentment point services from the Reserve Bank:

- (i) the presentment point services are provided subject to sections 4.1 through 4.8, 5.1, and 5.3 of Appendix F, above;
- (ii) same day settlement items are presented to the paying bank when they are delivered to the Reserve Bank as provided in section 229.36(f) of Regulation CC;
- (iii) the Reserve Bank will provide the paying bank an image file containing images of the same day settlement items and related MICR data, for information purposes only and not as presentment.

4.7 Reject Repair Services for “Electronic Receivers”

- (a) At the request of an “Electronic Receiver” the Reserve Bank will perform repair services with respect to the data contained in the MICR line of items that the Reserve Bank transmits or delivers in electronic form. The Reserve Bank may repair or key enter MICR line information because: (i) the MICR line on an item is difficult to read; (ii) the MICR data from an item causes the item to fail a standard Reserve Bank edit routine; or (iii) the MICR data causes an item to fail an edit that the Reserve Bank performs at the Electronic Receiver’s request, applying criteria specified by the Electronic Receiver to which the Reserve Bank has agreed.

- (b) In performing MICR repair or key entry services at the request of the Electronic Receiver, the Reserve Bank acts as the Electronic Receiver's agent. The Reserve Bank makes no warranties of any kind with respect to such services and hereby expressly disclaims any warranty or indemnity that arises by operation of law, except to the extent that any such warranty or indemnity cannot be disclaimed as a matter of law.
- (c) The Reserve Bank's repairing or key entry of MICR line information on an item pursuant to this paragraph does not constitute an alteration of an item and does not breach any warranty with respect to alteration of an item.
- (d) With respect to any action that the Reserve Bank takes to carry out an Electronic Receiver's instruction with respect to MICR repair or key entry services under this paragraph, the Reserve Bank shall be liable only to the Electronic Receiver, only for the Reserve Bank's lack of good faith or failure to exercise ordinary care, and only for the amount of damage actually caused by the Reserve Bank's failure to perform the requested service with good faith or ordinary care, but in no event shall the Reserve Bank's liability exceed the amount of any fees paid to the Reserve Bank by the Electronic Receiver specifically for the MICR repair or key entry service during the one month period immediately preceding the transaction or occurrence that gives rise to the claim for damages.

4.8 We or the Paying Bank may terminate the services provided under this Appendix by giving not less than twenty banking days prior written notice to the other party. A Paying Bank that requests a service change that we deem to be significant with respect to any aspect of the service that we provide to the Paying Bank as an Electronic Receiver must notify us in writing of the requested service change no later than twenty banking days prior to the effective date of the requested service change.

Appendix H: Electronic Check Adjustments and the Documents to Follow Archive

1.0 General

- 1.1** This Appendix sets forth the terms under which we permit banks to submit, receive and respond to electronic adjustment requests and to submit, receive and access supporting electronic documentation. The terms and procedures specified in Operating Circular 3 and the Check Adjustments Quick Reference Guides govern the handling of electronic adjustment requests except as modified herein. To the extent that any provision of this Appendix H conflicts with the terms and conditions set forth elsewhere in Operating Circular 3 or in Operating Circular 5, the provisions of this Appendix H shall apply.
- 1.2** Access by banks to our electronic systems is governed by our Operating Circular 5 (“OC 5”), entitled “Electronic Access.”

2.0 Description of Electronic Adjustments

- 2.1** A bank may use a FedLine connection to submit an adjustment request. A bank that submits adjustment requests using a FedLine connection agrees to receive and respond to adjustment requests using a FedLine connection.
- 2.2** Electronic adjustment requests must be received by a Reserve Bank within the timeframes specified in this Operating Circular and the Check Adjustments Quick Reference Guide. Electronic adjustment requests received by a Reserve Bank after 3 p.m. local time will be deemed received on the next banking day.
- 2.3** A Reserve Bank will acknowledge an electronic adjustment request or make the requested entry by the close of the next banking day after receipt of the request. A bank that receives neither an entry nor an acknowledgement should contact its Reserve Bank.

3.0 Documents to Follow Archive (“DTF Archive”).

- 3.1** Description

The DTF Archive is a database operated by the Reserve Banks for the purpose of storing and retrieving images of documents supporting adjustment requests received by the Reserve Banks. Reserve Banks operate the DTF Archive for their own convenience in researching and resolving adjustments. The Reserve Banks also make access to the contents of the DTF Archive available to banks as provided herein.
- 3.2** Transmission of Documents to the DTF Archive.

- 3.2.1** Documents supporting an adjustment request (other than required originals) may be faxed to the Reserve Banks in accordance with the procedures established by the Reserve Banks for receipt of facsimiles. Documents sent to the Reserve Banks by facsimile will normally be imaged and stored in the DTF Archive without manual intervention.
- 3.2.2** Documents supporting an adjustment request that are not faxed to a Reserve Bank must be mailed to the Reserve Bank. Upon receipt of such documentation, the Reserve Bank, or its authorized agent, will image the documents and store them in the DTF Archive.

3.3 Access to and Use of Archived Documents

- 3.3.1** The Reserve Banks agree to make the DTF Archive 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 archived data thereafter. The Reserve Banks will limit access to specific documents in the DTF Archive to the sender of the document, the Reserve Banks and other banks involved in the adjustment request. Authorized banks may access documents electronically through the use of a FedLine Web connection. Alternatively, a Reserve Bank may mail copies of documents stored in the DTF Archive to a bank.
- 3.3.2** Archived 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.

4.0 Electronic Connections

- 4.1** FedLine Web banks deliver and receive data related to adjustments, other than documents required for adjustments, via electronic access governed by Reserve bank Operating Circular 5.
- 4.2** A bank may elect to use the FedMail[®] system to electronically receive advices, adjustment requests and documents archived in the DTF Archive. FedMail is a Federal Reserve electronic messaging system used to deliver information to banks.
- 4.3** FedMail User Requirements. Banks that elect to use the FedMail system must designate whether the information should be delivered via e-mail or via facsimile. The FedMail system uses Xpedites public network services to deliver facsimile messages and the public Internet to deliver e-mail messages. The FedMail system relies exclusively on the security protocols provided by these public networks.
 - 4.3.1** Banks that elect e-mail delivery must provide e-mail addresses of at least two (2) employees who are authorized to receive check adjustment information. Alternatively, a bank may establish, through its own service provider, an e-mail address with multiple user access and provide that e-

mail address to a Reserve Bank. The list of authorized employees and their e-mail addresses must be submitted in writing and signed by an individual authorized to conduct business on behalf of the bank. Reserve Banks may rely on e-mail addresses and telephone/facsimile numbers until the Reserve Bank receives notification of changes to the list in writing.

- 4.3.2** It is the responsibility of the bank to ensure that at least one of its designated employees is available each business day to receive electronic communications from the Reserve Bank. In no event will the Reserve Bank be liable for losses caused by the unavailability of the designated employees or their failure to timely review and act on incoming e-mails or facsimiles.
- 4.3.3** A Reserve Bank satisfies its obligation under the Operating Circular to deliver or send any notice, advice, message and other information to a bank that has elected to use the FedMail system when the Reserve Bank initiates the necessary e-mail or facsimile in a timely manner. The Reserve Bank's records shall be used to determine when a notice, advice, message or other information has been delivered or sent by a Reserve Bank.

4.4 Reserve Bank Liability

The Reserve Banks are not liable for loss or damage resulting from a problem beyond their reasonable control. This includes but is not limited to any loss or damage resulting from any alteration of any information contained in an e-mail or facsimile sent over the FedMail system, any third party's interception and/or use of any information while being transmitted over the FedMail system, and the services provided by an Internet service provider, including the accessibility, reliability or speed of an Internet connection.

5.0 Contingency Plans

- 5.1** A bank must notify us immediately of any disruption that prevents the bank from using its chosen electronic connection for submitting, receiving and responding to adjustment requests, and must be prepared to use alternative means of submitting, receiving and responding to adjustment requests in the event that electronic access is not available.

Appendix I: FEDIMAGESM Information Services

1.0 General Description

- 1.1 FedImage 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 FedImage services to the following kinds of Institution: a sending bank with respect to checks that the sending bank has sent to the Reserve Bank as cash items; a paying bank with respect to checks that the Reserve Bank has presented to the paying bank; a depository bank with respect to returned checks that the depository bank has received from the Reserve Bank; and 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 FedImage archive.
- 1.2 The Institution selects specific FedImage services by completing the user configuration process in the FedImage application software, or by submitting requests for FedImage 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 FedImage prices as amended from time to time, for all FedImage services that the Institution requests and receives.

2.0 Services Included

2.1 FedImage Capture or Importation

The Reserve Bank may capture images of checks or may import check image files. Image files delivered for importation into the FedImage system must conform to the Reserve Bank's technical specifications for the FedImage system 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 FedImage system at the Institution's request.

2.2 FedImage Storage and Archiving

The Reserve Bank may store check images online or in an offline FedImage archive for various periods of time as agreed between the Reserve Bank and the Institution.

2.3 FedImage Delivery

The Reserve Bank may make images available to the Institution through scheduled deliveries of image files on physical media, either on tapes or on CDs, or by electronic transmission of image files as described in the FedImage 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 a facsimile machine at a telephone number specified by the Institution, to an

email address specified by the Institution, or to a FedImage 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 FedImage Retrievals by the Institution

The Institution may access FedImage services by means of the internet if the Institution subscribes to FedLine Web Check Services. The Institution may request that the retrieved images be transmitted to the Institution's system for online viewing and printing, to a facsimile machine at a telephone number specified by the Institution, to an email address specified by the Institution, or to a FedImage mailbox for subsequent viewing or printing on the Institution's system.

2.5 FedImage Gateway Retrievals

The Institution may configure its systems to provide its customers images that the Institution obtains from the Reserve Bank. The configuration of FedImage 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 Service only if the Institution's customer is a party to the check.

2.6 FedImage 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

- 3.1** If the Institution has ordered FedImage service with respect to an item that the Institution 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 is unable to capture a usable image of every item. For example, if an item crosses the check sorter in a carrier envelope, the Reserve Bank may not be able to capture an image of the item contained in the

envelope, and the image that is captured and stored in the FedImage archive may be an image of the carrier envelope rather than an image of the item contained in the envelope. If an item has been imprinted with certain inks using certain security procedures, the photographic image of the item that is captured and stored in the FedImage archive may bear the legend "COPY" or "VOID." The Reserve Bank is not responsible for the content of image files that are submitted to the Reserve Bank for import into the FedImage archive.

4.0 Image Delivery

- 4.1 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, except that, notwithstanding the Institution's request to receive images in grey scale, the Reserve Bank will deliver to the Institution in black and white the image of any electronic item drawn on the Institution that a sender sends to the Reserve Bank in black and white. 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

- 5.1 If the Reserve Bank is delayed in providing any FedImage 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 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

- 6.1 The Institution acknowledges that accessing and transmitting check images through the 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 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.

7.0 Limitation on Use

- 7.1 The Reserve Bank owns the images in the FedImage archive. The Reserve Bank provides FedImage information services to the Institution for informational purposes only and not for the purpose of making electronic deposit, presentment,

or return of items. 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 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 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 Service. This indemnification shall survive the termination of 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:
- i. Failure of the Institution to maintain the confidentiality of information needed to obtain access to the Service;
 - ii. Alteration of a check image sent to or from the Reserve Bank in connection with the Service; or
 - iii. Unauthorized access by the Institution or its customer to check images.

10.0 Disclaimer of Warranties

10.1 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 BANK OR ITS AGENTS OR EMPLOYEES IN CONNECTION WITH THE SERVICE SHALL CREATE A WARRANTY OR IN ANY WAY INCREASE THE SCOPE OF THE RESERVE BANK'S OBLIGATIONS.

11.0 Fees

11.1 For use of the 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 Operating Circular #3.

12.0 Termination

The Reserve Bank or the Institution may terminate the Service without cause at any time upon thirty days' prior notice. 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 Troubleshooting

13.1 The Institution is responsible for the proper operation of its electronic information systems. The Reserve Bank in its discretion may suspend or disconnect the Institution's electronic access to the Reserve Bank's systems in the event that the Institution's access to the Reserve Bank's systems generates error conditions, causes denials or disruptions of the Reserve Bank's systems, 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 Institution will cooperate to investigate, identify, and correct the problem or problems affecting the Institution's access to the Reserve Bank's systems. The Reserve Bank will restore the Institution's access to the Reserve Bank's systems promptly after the correction of such problem or problems.