

Instructions to Customers on Cheque Return Notification (CRN)

Release 1.0

Cheque Return Notification (CRN)

The Payment & Settlement System Act No. 28 of 2005 lays down the procedure in respect of the payment of cheques electronically presented. Section 34 (1) of the act states where a cheque presented for payment is dishonoured by non-payment, the banker to whom the holder delivered the cheque for collection shall issue to the holder an Image Return Document/Cheque Return Notification (CRN) with the following set out requirements. According to section 34(2) “ An Image return document shall be deemed to be the cheque to which it relates”

Banks will return the Cheque Return Notification (CRN) in lieu of a returned cheque unlike the current practice of returning the originally deposited physical cheque. CRN format will conform to requirements set out by the Central Bank of Sri Lanka (CBSL).

Warranty of the bank issuing a CRN

According to section 35(2) a banker who issues a CRN warrants that the cheque image is a true, complete and accurate image of the original cheque and that the stipulated electronic payment information is the same as is on the cheque.

Indemnity of the bank which issues a CRN

Section 35 sub sections 1 & 2 of the act also requires a banker who issues a CRN to indemnify the drawer of the cheque against any loss incurred due to presentment being made by electronic means instead of by presentment of the cheque itself and against any loss in the event of the cheque itself being paid or sued on.

Use of the CRN

A CRN can be used only for the purpose of re-presentment to the bank where the original cheque was deposited.

CRN can be used only for ONE re-presentment.

CRN cannot be presented over the counter for encashment.

CRN cannot be for negotiation.

CRN cannot be deposited at another bank for collection.

CRN can be used for the purpose of evidence.

CRN is valid for 6 months from 1st presentment date or cheque date whichever is earlier

CRN will be issued the following day after business day from the date of cheque deposit

Caring for the CRN

Do not tear, mutilate, sign, alter or write on the CRN and create CRN invalid for presentment.

This part shall contain clearing information and it shall serve as the bank's copy.

Contains instructions and conditions for re-presentation and the following information: UI Number, Amount, Cheque Number, Paying Bank, Return Code, Return Reason, Collecting LCPL Regional Center, date of return and whether it is the first or the 2nd return

Part C

Specimen of Part C is given below

The image shows a specimen of Part C, which is a legal copy of a returned cheque. It contains the following elements:

- Front Image of Returned Cheque:** A large rectangular area on the left side, currently blank, intended for the scanned image of the original cheque.
- Cheque Status:** A small rectangular box with a red border, currently empty.
- Collecting Bank:** A large rectangular area below the front image, currently blank, for the name of the collecting bank.
- PART-C Bank's Copy:** A small rectangular box on the right side, currently empty.
- Date:** A field on the right side for the date, with the text "For Endorsements" below it.
- Logos and Text:** The CITS logo is visible in the top left. The text "This is a legal copy of the returned cheque." is centered at the top. The text "Forwarded for Cheque Clearing by Collecting Bank" is written vertically on the left side. The text "© Copyright 2005" is at the bottom right.

Part C will be forwarded by the customer to the collecting bank for re-presentation along with Part B.

Part C shall be deemed to be the cheque to which it relates and therefore the front of this part shall carry a true, complete and accurate scanned image of the face of the original cheque or image of part C (in case of 1st re-presentation) .

Reverse of part C shall contain the true, complete & accurate image of the reverse of the original cheque or image of reverse of Part C (in case of 1st re-presentation).

There is provision on the reverse of Part C for endorsement, if required and hence, endorsements on the front or reverse surfaces of the cheque should be refrained.

Cheque Return Codes

A cheque could be unpaid for a variety of reasons. Return reasons are indicated in the CRN as Cheque Return Codes and arranged into three broad categories. I.e. return remarks, which can be represented, return remarks which cannot be represented and return remarks which cannot be represented for specific technical reasons. A fee shall be levied for each CRN and the Bank to bear such fee as indicated against each cheque return code.

Category 1 (Return remarks 1 to 9 and 10 to 49)

If a cheque is returned with a return remark which falls into this category, CRN can be presented only to the originally collected Bank (or to a networked branch) and a surcharge will be levied to the paying Bank.

Category 2 (Return remarks 50 to 63)

If a cheque is returned with a return remark which falls into this category, collecting bank cannot accept a CRN for re-presentation. As it cannot be re-presented, customer will need to request a new cheque from the drawer.

Category 3 (Return remarks 64, 65 & 66 – specific technical reasons)

In respect of return remarks 64, 65 & 66 where the cheque is returned due to specific technical reasons, collecting Bank will

- Deliver the physical cheque through the courier to the relevant paying bank branch along with the relevant CRN(Parts B & C)
- Inform customer that the cheque deposited was not collected on T+1 basis by utilizing Part A of the CRN.

Request by customer for original cheque

If a customer requests for the original cheque in lieu of the CRN he received, collecting Bank will grant the request.

Cheque Return Codes

Re-presentable Return Codes

1. Refer to Drawer (*Paying Bank*)

The standard phrase used when the drawer does not have adequate funds or had not made arrangements to meet the amount of the cheque.

2. Effects Not Realized (*Paying Bank*)

- a) Effects are under collection.
 - b) Effects are in the clearing.
 - c) Effects have just been received for clearing or collection
-

10. Payee's Endorsement Required (*Presenting Bank*)

A cheque payable to the payee or to his order requires to be endorsed by the payee prior to presentation for payment to indicate to the paying banker that either the payee is receiving payment or has ordered that payment be made to some other person or to bearer.

11. Payee's Endorsement Irregular (*Paying Bank*)

To be used when the endorsement does not follow the requisites of a valid endorsement (Section 32 Bills of Exchange Ordinance).

12. Payees Endorsement Illegible (*Presenting Bank*)

Again to conform to the requirement of valid endorsement, the endorsement should be readable.

13. Post-dated cheque (*Presenting Bank*)

When, the cheque bears a date, which has not yet arrived.

14. Payment Postponed pending drawer's confirmation (*Paying Bank*)

This remark is to be used in following situations.

- a) Countermand instructions in writing by the drawer, not received at the bank. (Where the instructions were received over the telephone etc.,)
- b) Where instructions were received from payee or another holder of a cheque.
- c) The instructions, even if in writing do not contain adequate information.
- d) Where the paying banker has notice of a defect in the title of the party presenting the cheque.

15. Credits not verified (*Paying Bank*)

Only to be used under catastrophic circumstances(ex: immediate aftermath of Tsunami/Floods etc, where the paying banker faces a situation where he is uncertain and unable to verify whether any credits to the customer's account are available.

16. Funds in transition (*Paying Bank*)

To be used in only respect of cheques drawn by Government departments where funds are inadequate to meet the amount of the cheque. This remark should not be used for any other purposes.

Non- Re-presentable Return Codes

50. Stale Cheque (*Presenting Bank*)

Where, the cheque bears a date 6 months or more prior to the date on the cheque.

51. Account Closed (*Paying Bank*)

Self explanatory.

52. Payment stopped by drawer (*Paying Bank*)

Where, the drawer has given complete and unambiguous written instructions to stop payment.

53. Drawer deceased (*Paying Bank*)

On receiving reliable notice of death of the drawer, this remark may be used. Where such notice is not confirmed, a remark "Payment postponed pending confirmation" may be used as a variation of Code 14. Similarly, when joint signatories are required to sign a cheque and one drawer is deceased the same remark could be used with an appropriate variation such as "joint signatory deceased".

54. Funds attached (*Paying Bank*)

- a) Funds are attached by a Notice from the Inland Revenue Department, and the resultant balance is insufficient.
- b) A prohibitory Notice/garnishee order issued by Court which forbids the disbursement of the balance in the account. NB: If a specific amount is indicated in the Notice, any excess could be used to honour a cheque.
- c) An injunction/enjoining order issued by Court which forbids disbursement of funds in the account.

55. Amount in words and figures differ (*Paying Bank*)

Although Section 9 (2) of the Bills of Exchange Ordinance states that where there is a discrepancy between the sum payable expressed in words and also in figures, the sum denoted in words is the amount payable, the practice of bankers has been to return such cheques with the above mentioned answer except when they decide to pay the smaller amount if the discrepancy is not large.

56. Drawers mandate determined (*Paying Bank*)

Where the banks authority to pay cheques is determined in the following circumstances;

- a) Notice of bankruptcy of the customer.
- b) Notice of winding up a corporate customer/appointment of a provisional liquidator.
- c) Notice of mental incapacity of the drawer
- d) Notice of a lien on the credit balance of the account or assignment of funds
- e) Reliable knowledge or notice that the customer is committing a Breach of Trust.
- f) Application of provisions of Anti Money Laundering Laws or of The Convention on the Suppression of Terrorist Financing.

57. Drawer's signature differs from specimen in possession (*Paying Bank*)

Where, the paying banker is of the opinion that the drawer's signature on the face of the cheque is different to an extent from the specimen signature in possession that it warrants dishonor. This remark will be used specially to safeguard the interests of the customer.

58. Alteration not confirmed by drawer (*Paying Bank*)

When the cheque bears a material alteration, which has not been confirmed by the drawer, this remark will be used.

Except Changes to a crossing which enhances the safety of the cheque or alteration from "Bearer" to "Order" all other alterations are generally deemed to be material alterations, requiring confirmation

59. Cheque Incomplete (*Presenting Bank*)

When any of the following particulars of a cheque has/have been omitted;

- a) Date
- b) Payee's Name
- c) Amount in words
- d) Amount in figures
- e) Drawer's signature

60. Cheque not drawn in accordance with mandate (*Paying Bank*)

When the mandate given to the bank requires more than one signature, and the persons authorized to sign must do so in a particular combination, and the cheque presented is at variance with the mandate, the above answer conveys the appropriate reason for dishonor.

61. Cheque crossed to more than one bank (*Presenting Bank*)

The Payee bank is entitled to return a cheque which is crossed to say, two banks unless one crossing is that of an agent of the other for collection of cheques. (Sec. 79(1) of the Bills of Exchange Ordinance) These crossings include those placed by banks when collecting cheques as well as special crossings placed by the drawer or a holder of a cheque.

62. Cheque irregularly drawn (*Paying Bank*)

To be used in a situation where irregularities are seen in the cheque drawn. This remark is also used when a cheque is made payable to "Cash or Order", and include situations where a cheque payable to "cash or bearer" has "bearer" struck-off with or without the addition of the word "Order".

63. Validity expired (*Presenting Bank*)

To be used where a cheque bears a validity period of 30/60/90 days etc., printed or written on the face of the cheque and the date of presentation is after such period of validity. This remark should not be used on cheques bearing a date 6 months or more prior to the date appearing on the cheque, the remark for which is "Stale Cheque" which is listed under Non-Re-presentable Return Codes.

64. Scheduled in Error (*Presenting Bank*)

Read wrong bank or bank branch. In case the error was a scanning error and not an encoding error, the presenting bank will need to locate the original cheque after receiving the CRN and place a sticker on the UI number and resubmit as a fresh cheque.

65. Encoding Error (*Presenting Bank*)

If the encoded amount is different from the Customers hand written amount.

66. Bad Image (*Presenting Bank*)

If the captured image is not clear enough to honour the cheque