

CHECK CLEARING FOR THE 21ST CENTURY ACT
Final Amendments to the Federal Reserve Board's Regulation CC

The Federal Reserve Board has issued final amendments to Regulation CC necessary to implement the Check Clearing for the 21st Century Act (Check 21 Act). The Check 21 Act becomes effective on October 28, 2004.

On May 21, 2004, the Federal Deposit Insurance Corporation (FDIC) notified institutions under its supervision to prepare for Check 21 Act operational changes (see FIL-54-2004). On July 26, 2004, the Federal Reserve Board issued a final rule and commentary to implement the Check 21 Act.

The purpose of the Check 21 Act, enacted on October 28, 2003, is to facilitate check truncation and electronic check exchange, and to authorize a new negotiable instrument called a "substitute check." A substitute check is a paper reproduction of the original check containing an image of the front and back of the original check that can be processed in the same manner as the original check.

Although the Check 21 Act provides that a properly prepared substitute check is for all purposes the legal equivalent of the original check, financial institutions are not required to create substitute checks or to accept checks electronically. The Check 21 Act, however, includes new warranties, an indemnity and expedited recredit procedures that protect substitute check recipients.

Specifically, the final rules:

- Set forth the requirements of the Check 21 Act that apply to financial institutions;
- Provide a model disclosure and model notices relating to substitute checks; and
- Set forth financial institution endorsement and identification requirements for substitute checks.

The complete rules, which are published as amendments to Regulation CC, can be found at: <http://www.federalreserve.gov/boarddocs/press/bcreg/2004/20040726/>. Attached is the Federal Reserve Board's model "Substitute Check Policy Disclosure" for consumers, which has been published as Appendix C-5A to the rules.

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