

US-Dollar Cheque Collection

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One of the services rendered by banks as part of their normal banking operations is collection of cheques deposited by their customers, some of which, could also be drawn or payable on banks that are outside the country. Such cheques are called foreign currency cheques and, presently, a significant part of these cheques are US-Dollar denominated payable by banks in the United States of America.

In the interest of better public awareness, the following FAQs have been prepared for cheques denominated in US-Dollars.

1. I have received a cheque denominated in US Dollars. How does such a cheque differ from the usual Rupee cheques as an instrument of payment?

Cheques denominated in currencies other than Indian Rupees such as Euro (€), Pound Sterling (£), US Dollar (\$), Yen (¥), etc., are called foreign currency cheques. Foreign currency cheques include demand drafts, personal cheques, banker's cheques, cashier's cheques, traveller's cheques, etc. Since such cheques are not payable in India they are, therefore, required to be sent to the country concerned for realization of proceeds.

2. RBI has advised banks to frame their own Cheque Collection Policy covering various aspects relating to collection of Rupee cheques. Are there similar guidelines for collection of foreign currency cheques as well?

Cheques denominated in US Dollars (USD cheques) constitute a major share of foreign currency cheques deposited by customers for realisation. In order to make the USD cheque collection process more efficient and transparent, RBI has advised banks to refine their USD cheque collection procedures and frame their own USD Cheque Collection Policy covering aspects like mode of collection, collection period, charges for collection, etc. This policy shall be made part of their regular Cheque Collection Policy.

3. It is now clear that USD cheques are payable in USA and are required to be sent there for realisation. But are there different modes of collecting such cheques?

Yes. There are various ways of collecting (realising) USD denominated cheques. The collection process followed by banks (presenting banks) varies depending on the institutional arrangements put in place by them. There are basically three types of arrangements adopted by banks—

i. Cash Letter Arrangement (CLA): Cheques are sent by the presenting banks in India to their correspondent banks (CBs) in USA for domestic clearing. Funds are collected (realised) by the CBs and credited to the account of the presenting bank maintained in US. Such accounts are known as NOSTRO accounts. For cheques sent under CLA the CB gives provisional credit to the bank on a pre-determined date (which varies from 7 to 9 days after tendering of cheque to the CB). However, the provisional credit will be subjected to a cooling period. After the cooling period, the customer's account with the presenting bank in India is credited. In case of secured collection facility, the CB provides a guaranteed credit but at an additional cost.

(Cooling period is the time up to which banks wait after receiving provisional credit for the amount of cheque in their Nostro account for possible return of the cheque under provisions of the laws of USA by the drawee bank, before giving credit to the customers. More details are available under Question 9.)

(Secured Collection is a facility extended by the CBs. Under this facility, the CBs provide guaranteed final credit without recourse within a confirmed time period unlike normal collection service. Hence the collection time period is better under this facility. CBs offering this facility normally fix a cap for the amount of individual cheques collected under the arrangement. The CBs absorb any subsequent recall of payment by the drawee bank as per US laws. The bank offering such service charge an additional amount for giving credit without recourse.)

ii. Direct Collection Arrangement (DCA) : Cheques are sent by the banks in India directly to the drawee banks in USA for collection. Usually collection services ensure receipts of clear funds i.e., risk of return is almost eliminated. Therefore, high value cheques are generally sent under collection though the time taken may be more.

iii. Final Credit Services (FCS) : These services are offered by some CBs. The CB offering the service guarantees confirmed credit against the instrument. Under this arrangement banks receive final credit in their Nostro accounts without any recourse. This service normally does not have any cooling period as the cooling period is factored by the CBs before releasing the clear funds.

iv. Check-21 Facility : The System has been facilitated under Check-21 Legislation. It works more or less like CTS. When using check 21 facility, dealings are cleared utilizing the exchange of check images from bank to bank. It saves time in transit.

4. What is a Nostro Account?

A Nostro account is a bank account established in a foreign country usually in the currency of that country for the purpose of carrying out transactions there. For example most commercial banks maintain US dollar accounts with their correspondent banks in USA in order to facilitate settlement of interbank and customer transactions in US dollar.

5. What are the charges levied for the collection of these USD denominated cheques?

The charges levied by banks for collection of such USD denominated cheques are dependent on the type of collection arrangement chosen by customers and the number of intermediaries (correspondent banks) involved in the collection process. Each of the CBs will levy their own charges for facilitating the process of collection. All these charges will be in turn levied by the collecting banks in India from the customers. The customer's account is credited net of collection charges (proceeds minus collection charges)

6. Are US regulations applicable to USD cheque collection?

The basic legal framework for determining rights, responsibilities and liabilities of the parties in connection with collection of USD denominated cheques drawn on US banks are governed by the legal framework as laid down under the US federal and state laws like Uniform Commercial Code (UCC) etc. However, in the event of return of a counterfeit cheque handled through this process, the drawee bank in the US has the right to recover the proceeds from presenting banks within the period stipulated under US Clearing House guidelines.

7. Can the customer choose the mode for collecting USD cheques ?

Yes. Banks have been advised to make their USD Cheque Collection process transparent. Various modes of collection along with the timeframe and charges for collection shall be covered therein. Customers could request for any of the collection modes specified in the USD Cheque Collection Policy based on need, convenience and cost involved.

8. Just as RBI has mandated a timeframe for collection of Rupee cheques, is any timeframe stipulated for collection of USD cheques too?

No. Timeframe for collection of USD cheques will vary depending on the collection mode. The date of credit to the account of the customer will be reckoned based on the date of credit (value date) to the Nostro Account of collecting banks and the cooling period. The time taken by banks for collection of USD cheques normally ranges from 15 to 30 days and may go up to 45 days depending upon the collection arrangement and place at which the instrument is payable. The diversity in the banking and payment systems in USA and laws governing cheque transactions have a significant bearing on the collection time. Based on the mode of collection, banks have been advised to indicate the period for collection of USD cheques in their USD Cheque Collection Policy. The transit time may be reduced by 2 to 3 days by sending the cheques the same day from branches to centralised pooling branch and centralised pooling branch to Correspondent Banks. However, banks have also been advised to explore using faster methods of realisation such as leveraging on Check-21 facility in the US for saving in transit time.

9. It appears that the cooling period has a major impact on collection time?

Yes. Cooling period is the time up to which banks wait after receiving provisional credit for the amount of cheque in their Nostro account for possible return of the cheque by the drawee bank under the provisions of the US laws, before giving credit to the customers. Cooling period is dependent on the mode and area of collection and varies from 5-8 days for cheques in New York area and 15-21 days for other cities collected under CLA mode. However, under the FCS mode, banks receive final credit in their Nostro account without any recourse to recall. It does not involve cooling period as this is already factored into by the CBs before releasing the final credit.

10. Are customers given credit and allowed to use the funds after sight of credit in the Nostro accounts of banks?

No. The collecting banks credit the customer's account only after expiry of the cooling period as such funds are subject to recall under US laws. Some banks may permit selective withdrawal of funds before the cooling period lapses depending on the customer's credit worthiness, relationship with the bank, KYC compliance, value of the cheque, etc. It is a commercial decision of the bank. Banks have been advised to formulate their policy on instant credit for small value cheques as part of the USD Cheque Collection Policy.

11. Funds are credited to the customers' accounts after the cooling period though funds are resting in the Nostro accounts of collecting banks during the period. Is there any compensation for customers?

Yes. Banks have been advised to pay interest on the amount of cheque on a value-date concept from the date of sighting of credit in their Nostro accounts till such time the credit is actually afforded to customers' accounts. Interest shall be paid minimum at the Savings Bank rate calculated on the amount of proceeds credited to the customers' accounts.

12. Will the customer be compensated for delay in collection beyond the collection period indicated in the Cheque Collection Policy of the bank?

Yes. Compensation by way of additional interest will be paid on to the customer for delay in collection beyond the declared collection period as per the bank's USD Cheque Collection policy and such interest shall be on "step-up basis" for the period of delay. The compensation shall be paid automatically without the customer requesting for the same

13. What are the instructions for facilitating customer awareness and redressing customer complaints?

Banks are required to make their USD Cheque Collection Policy transparent covering all the relevant aspects detailed above. Banks are also required to widely disseminate the policy by displaying at their branches, on their website, etc. A copy of the policy will be available with the Branch for the customers to go through. Banks have been advised to look into and redress customer complaints like delay in collection / receipt of proceeds, etc. Customers may resort to the redressal mechanism put in place by RBI under the Banking Ombudsman Scheme, 2006 for any complaints.

14. Are there any other instructions to banks in this regard?

RBI has recommended the following steps to banks for reducing the timeframe for collection of USD cheques -

- Review the collection policy on an on-going basis so as to explore faster methods of realisation.
- Reduce the transit period for movement of cheques from the collecting branches to the centralised pooling branch and from the centralised pooling branch to CBs.
- Explore feasibility of forming / pooling cheques of various collecting banks to a common service bureau to avail benefits arising out of increased volumes, reduced infrastructure costs, etc.
- Explore the possibility of leveraging on Check-21 facility.
- Use of efficient and reliable courier / postal service.

15. Do I have recourse to any other arrangement for collection (realisation) of USD cheques if I am in urgent need of proceeds?

Yes. The customer can approach the bank to discount or purchase the cheque. It is the commercial decision to extend this facility to customers based on customer profile. It needs to be appreciated that the charges for purchase / discount will be significantly higher because the bank will be parting with the proceeds before realising the cheques. The charges will vary depending on when the request for discount / purchase is made by the customer and the period for which the bank is out of funds.