

## **Dishonour of cheques – Procedure thereof**

Ref. DBOD.BC.Leg No.113 / 09.12.001/ 2002-03

June 26, 2003

All Scheduled Commercial Banks  
(Excluding RRBs and LABs)

Dear Sir,

### **Dishonour of cheques – Procedure thereof**

As you are aware, in January 1992, banks were advised to implement the recommendation of the Goiporia Committee that dishonoured instruments are returned / despatched to the customer promptly without delay, in any case within 24 hours (Ref.No.3.36 – our circular DBOD.No.BC.74/09.07.001/91-92 dated 28<sup>th</sup> January 1992).

2. Pursuant to the investigation by the Joint Parliamentary Committee (the JPC) into the Stock Market Scam, the JPC has recommended (in para 5.214 of its report ) that "specific guidelines need to be issued by the Reserve Bank to all banks regarding the procedure to be followed by them in respect of dishonoured cheques from Stock Exchanges." In the light of aforesaid recommendations of the JPC, the extant instructions relating to return of **all** dishonoured cheques have been reviewed.

3. We understand that banks are already following the appropriate procedure keeping in view the above instructions to deal with the dishonour of cheques. However, it is considered necessary to streamline the procedure to be followed by all banks in this behalf. It is therefore suggested that in addition to the existing instruction in respect of dishonoured instruments for want of funds, banks may follow the additional instructions laid down in para 4 of this circular which could cover **all** cheques dishonoured on account of insufficient funds and not only those relating to settlement transactions of Stock Exchanges.

#### **4. I. Procedure for return/ despatch of dishonoured cheques:**

- (i) The paying bank should return dishonoured cheques presented through clearing houses strictly as per the return discipline prescribed for respective clearing house in terms of Uniform Regulations And Rules for Bankers' Clearing Houses. The collecting bank on receipt of such dishonoured cheques should despatch it immediately to the payees / holders.
- (ii) In relation to cheques presented direct to the paying bank for settlement of transaction by way of transfer between two accounts with that bank, it should return such dishonoured cheques to payees/ holders immediately.

(iii) Cheques dishonoured for want of funds in respect of all accounts should be returned along with a memo indicating therein the reason for dishonour as "insufficient funds."

#### 4.II Information on dishonoured cheques:

(i) Data in respect of each dishonoured cheque for amount of Rs.1 crore and above should be made part of bank's MIS on constituents and concerned branches should report such data to their respective controlling office / Head Office.

(ii) Data in respect of cheques drawn in favour of stock exchanges and dishonoured should be consolidated separately by banks irrespective of the value of such cheques as a part of their MIS relating to broker entities, and be reported to their respective Head Offices / Central Offices.

#### 4.III Dealing with incidence of frequent dishonour:

(i) With a view to enforce financial discipline among the customers, banks should introduce a condition for operation of accounts with cheque facility that in the event of dishonour of a cheque valuing rupees one crore and above drawn on a particular account of the drawer on four occasions during the financial year for want of sufficient funds in the account, no fresh cheque book would be issued. Also, the bank may consider closing current account at its discretion. However, in respect of advances accounts such as cash credit account, overdraft account, the need for continuance or otherwise of these credit facilities and the cheque facility relating to these accounts should be reviewed by appropriate authority higher than the sanctioning authority.

(ii) For the purposes of introduction of the condition mentioned at (i) above in relation to operation of the existing accounts, banks may, at the time of issuing new cheque book, issue a letter advising the constituents of the new condition.

(iii) If a cheque is dishonoured for a third time on a particular account of the drawer during the financial year, banks should issue a cautionary advice to the concerned constituent drawing his attention to aforesaid condition and consequential stoppage of cheque facility in the event of cheque being dishonoured on fourth occasion on the same account during the financial year. Similar cautionary advice may be issued if a bank intends to close the account.

#### 4.IV General:

(i) For the purpose of adducing evidence to prove the fact of dishonour of cheque on behalf of a complainant (i.e. payee / holder of a dishonoured cheque) in any proceeding relating to dishonoured cheque before a court, consumer forum or any other competent authority, banks should extend full co-operation, and should furnish him/her documentary proof of fact of dishonour of cheques.

(ii) Commencing from the first quarter of 2003-04 i.e. quarter ending June 2003, banks should place before their Audit/ Management Committee, every quarter, consolidated data in respect of the matters referred to at II above;

5. Banks are also advised to adopt, with the approval of their respective Boards, appropriate procedure for dealing with dishonoured cheques with inherent preventive measures and checks to prevent any scope for collusion of the staff of the bank or any other person, with the drawer of the cheque for causing delay in or withholding the communication of the fact of dishonour of the cheque to the payee/ holder or the return of such dishonoured cheque to him. Banks should also lay down requisite internal guidelines for their officers and staff and advise them to adhere to such guidelines and ensure strict compliance thereof to achieve aforesaid object of effective communication and delivery of dishonoured cheque to the payee.

6. Please acknowledge receipt.

Yours faithfully,

Sd/-

**(C.R.Muralidharan)**  
**Chief General Manager**