

RBI/2005-06/292

UBD. BPD.Cir. No.30 /14.01.062/ 2005-06

January 30, 2006

Chief Executive Officers of  
All Primary (Urban) Co-operative Banks

Dear Sir,

**Collection of account payee cheque – Prohibition on crediting proceeds to third party account**

As banks are aware, an account payee cheque is required to be collected for the payee constituent. As regards account payee cheques drawn in favour of UCBs, banks which credit cheques drawn in their favour by other banks marked "A/c. payee" to the accounts of constituents who are not named payees therein, without proper mandate of the drawer, do so at their own risk and will be responsible for the unauthorized payment.

2. In view of the recent misuse of Initial Public Offer (IPO) process by certain individuals/entities and reports received in this regard from SEBI, the Reserve Bank of India took up detailed investigations at some banks to ascertain the modus operandi adopted by different parties in manipulating the system. It has come to our notice that banks had credited the proceeds of individual account payee cheques into the accounts of other customers, at times, under the pretext of prudent market practice. This has resulted in manipulation of the payment system and has facilitated the perpetration of irregularities.

3. Being satisfied that in consonance with the legal requirements and in particular the intent of the Negotiable Instruments Act, and with a view to protect the UCBs being burdened with liabilities arising out of unauthorized collections, and in the interest of the integrity and soundness of the payment and banking systems, and in order to prevent recurrence

of deviations observed in the recent past, the Reserve Bank has considered it necessary to prohibit the banks from crediting 'account payee' cheque to the account of any person other than the payee named therein. The Reserve Bank accordingly directs the UCBs that they should not collect account payee cheques for any person other than the payee constituent.

4. Where the drawer/payee instructs the bank to credit the proceeds of collection to any account other than that of the payee, the instruction being contrary to the intended inherent character of the 'account payee' cheque, bank should ask the drawer/payee to have the cheque or the account payee mandate thereon withdrawn by the drawer. This instruction would also apply with respect to the cheque drawn by a bank payable to another bank.

5. These directions are issued in exercise of the powers conferred under section 35A of the Banking Regulation Act, 1949 (AACS).

Yours faithfully,

(N.S.Vishwanathan)  
Chief General Manager in-Charge