

What you need to know about the new cheque standards and image-based clearing

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In January 2005, the Canadian Payments Association (CPA) published new specifications for Canadian cheques as a key element of a plan to modernize the cheque clearing system. All cheques used by customers of financial institutions operating in Canada will require some changes.

Why is there a new cheque standard?

In the current clearing process, about five million cheques have to be transported between financial institutions every business day. The CPA is leading an industry-wide initiative to make this process more efficient by capturing images of cheques so that they can be cleared electronically. The new specifications are necessary to ensure that high-quality cheque images can be captured, both for clearing purposes and for delivery to clients, and to enhance processing efficiency. Implementation of this new clearing process is targeted to begin in late 2006.

What will change for customers?

Businesses and consumers will see new image-based services that will allow easier account reconciliation, more convenient and efficient record-keeping, and quick access through online banking services to verify cheque details.

By late 2006, ATB Financial will no longer return cheques to customers along with account statements, in accordance with the requirements of the new clearing system. In its place, customers can expect a cheque statement with the image of the cheque (front and back) available either on-line or included with the account statement mail out. Several Canadian financial institutions already produce cheque images for their customers.

The CPA and its member financial institutions have established a two-year transition period to ensure cheque printers, software providers and businesses that produce their own cheques have ample time to make the necessary changes. The new cheque standards come into effect in January 2005, and cheque printers, software companies as well as all providers of cheques must incorporate the changes into cheque supplies by December 31, 2006.

What does this mean to me as a personal banking customer?

At this time, you need only to be aware that changes are coming and that there is a two-year transition period.

Since most personal banking customers order their personal cheques through their financial institutions, starting in April 2005, personal banking customers will automatically receive “new-format” cheques when ordering cheques through ATB. In the meantime, if you are ordering cheques, you may want to consider limiting the quantities you order.

Will I be able to use my current supply of cheques in 2007?

Further information on this question will be available later in 2005. It may be possible to continue to process some “old-format” personal cheques on an interim basis until customers have used up their current cheque supply, as long as suitable images can be captured from them.

What do the changes to the cheque specifications mean for business customers?

All Canadian business cheques should conform to the new specifications as outlined in CPA Standard 006, Part A by December 31, 2006. Your cheques will require some modifications to meet the new requirements. At a minimum, the new date field format and the printing requirements on the back of the cheque will necessitate changes.

- *If you have custom cheques printed by a supplier* will need to ensure that formats are modified to comply with the new standard. Key changes include adoption of the new numeric date field and printing of the date field indicators below, the printing requirements on the reverse of the cheque, and the mandatory serial number in the MICR line.
- *If you use an internal system* to generate cheques will likely need to make some system modifications - for example, to reflect the new date format, the standard positions of certain fields, and possibly changes to printing fonts. They will also need to update their

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cheque stock to reflect the new printing requirements on the reverse of cheques.

- ***If you use a financial software package*** to produce cheques will need to modify it or obtain a new version once the supplier has updated the package to reflect the new cheque specifications, as well as updating their cheque stock to reflect the new printing requirements on the reverse of cheques.
- ***If you buy cheque stock***, you will need to confirm it complies with the new specifications (e.g., maximum Print Contrast Signal for background and the printing requirements on the reverse).
- ***If you order your cheques through your financial institution***, the new cheque formats will be available by the April 2005.

Cheque printers, software providers and businesses that print their own cheques are strongly encouraged to provide pre-production samples of their new cheques to ATB Financial to confirm that they meet the new requirements. Contact information will be provided later in 2005.

Until the modifications are made and the new format cheques are available to you, you may want to consider limiting the quantities of cheques you order in the current format.

What are the benefits to business customers?

Potential benefits of cheque imaging for business customers include:

- More timely reconciliation as a result of being able to view cleared cheques more quickly;
- Faster research and tracing to address customer inquiries;
- Earlier notification of returned cheques;
- Potential new services to combat fraud, such as enhanced positive pay using encrypted bar codes or seals, and automated signature verification;
- Reduced costs and space requirements for physical storage of cancelled cheques.

What if my cheques are not compliant by December 31, 2006?

If your cheques do not comply by the end of 2006, you risk not having your cheques properly imaged in accordance with CPA requirements and consequently the cheques cannot be cleared using the new process.

What are the changes to cheques?

- Key changes to the cheque specifications include:

- Adoption of a numeric date field in one of two specified formats (MMDDYYYY or DDMMYYYY -- reflecting different practices in English- and French-speaking Canada). It is essential that field indicators be printed below the date field to indicate which format is being used.
- A mandatory serial number in the MICR line encoded at the bottom of the cheque (the serial number was previously an optional field in the MICR line).
- An increase in the minimum length of cheques to 6 ¼", or 15.88 cm, from 6", to ensure there is sufficient space for the mandatory serial number in the MICR line.
- Standardized positions for key fields on the cheque, including the date field and the amount in figures.
- Disallowance of elements that may hinder the capture of images or data from the cheque. For example, inverse printing, italics or slanted fonts, a bottom border printed below the MICR line, and the use of black carbon on the reverse of cheques will not be permitted.
- A provision to ensure that security features do not interfere with key data, or "areas of interest", as defined in Standard 006, Part A, either prior to imaging or post imaging. In particular, if pantographs are used, they must not be visible on images captured from original cheques.
- New printing requirements on the reverse of the cheque so that image capture can be verified.
- Some revisions to technical specifications (e.g. Print Contrast Signal) to ensure high-quality images can be captured. For example, some complex or colourful backgrounds that have been used on cheques to date may interfere with image quality and may need to be changed. For more details, consult Standard 006, Part A or the Overview of Changes.

Both an overview of the changes to cheque specifications and the complete Standard 006, Part A: Standards and Specifications for Imageable MICR-Encoded Cheques are available on the CPA's web site at www.cdnpay.ca.

Where can I get more information?

If you have further questions, contact the CPA's Communications and Education Division at 613-238-4173 or ATB Financial at 1-800-332-8383.