

Resolving Duplicates as Adjustments versus Returns

Created by the:

CheckImage Collaborative

Raising awareness, promoting the benefits, and encouraging best practices for image exchange and Check 21

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The working group is co-sponsored by the Electronic Check Clearing House Organization (ECCHO) and the Retail Payments Office of the Federal Reserve Bank of Atlanta. The views expressed in this document are not indorsed by, and do not necessarily reflect the views of, the sponsors or the entities that participate in the working group. This document is not intended as legal advice or opinion or any other form of legal or business recommendation to any person. To the extent that the document identifies or discusses a legal matter, a reader or other user of the document should consult with their legal counsel as to its application to them or to a particular situation.

Resolving Duplicates as Adjustments versus Returns

Background – Since the implementation of Check 21 the banking industry has experienced duplicate transactions. In the normal course of processing original checks, creating Substitute Checks, creating image files, and converting checks to ACH transactions, duplicates inadvertently are entered into the payment system. Typically these are operational duplicates, where there is no fraudulent intent. However, fraudulent duplicates may occur due to counterfeit or altered transactions. Under Check 21 and Regulation CC, the Reconverting Bank warrants that other parties in the payment process will not be asked to pay an item twice.

If a duplicate occurs, the financial industry should be able to detect it. Once duplicate transactions are detected¹, financial institutions must properly resolve duplicates to minimize the negative impact to the financial institution and its customers. The paying bank may want to resolve duplicates differently when they are aware that the duplicate was an operational issue versus a fraudulent duplicate or when the cause is unknown.

While there is no perfect solution to resolving these items, the industry's focus should be on the prevention of duplicates. A consistent methodology across the industry may help alleviate some of the issues associated with these transactions.

Scope of this Document – When duplicates are received by a paying bank, it can initiate resolution of the problem by either returning or adjusting the item. Duplicate transactions can be detected either within the UCC and Regulation CC return time frame or after these timeframes. If detection occurs after the legal return times frames, these duplicate transactions can only be handled as adjustments or warranty claims. The remainder of this document will address the decision of handling duplicates received by the paying bank that are discovered within the legal required return time windows. There may be unique issues associated with a financial institution's official instruments that could change the outcome and is therefore not addressed in this document; seek legal counsel regarding these instruments.

Adjustments vs. Return – There are positive and negative implications when resolving duplicates as either a return or an adjustment. Each bank must make its own decision based on its risk analysis to best handle the duplicate transaction.

Adjustment – A duplicate can be handled as an adjustment through the normal adjustment process. The major adjustment providers' include: Federal Reserve, NCHA and SVPCO. The adjustment providers are working with the industry to improve the adjustment process for transactions to make the process more closely resemble return processing for ease of handling. Once the adjustment is properly completed the problem is resolved.

- Advantages of using adjustment

¹ A discussion of Prevention and Detection of Duplicates is outside the scope of this document. If you are interested in additional information on that subject, please review the following document – [Duplicates Prevention and Detection](#)

- No negative impact to customers
 - Depositing customer
 - Drawer customer
 - Error handled within the banking system
 - Operationally a better process
 - Less research needed to identify item as duplicate
 - More efficient research capability
 - Adjustments historically used to resolve these type of issues
 - Adjustment personnel familiar and capable of handling these transactions accurately and timely
- Disadvantages of using adjustment
- Less efficient process than returns, requires more paper work
 - May not be as timely
 - May lose right to return item since the transaction is not conforming to all legal return requirements
 - This is pertinent for counterfeit or forged items
 - May have dollar limits associated with the adjustment
 - Limits generally apply to aggregated totals
 - May have fees associated with the adjustment
 - Fees typically not charged on a reciprocal basis

Return – A duplicate can be handled as a return through the normal return process. Any item returned as a duplicate should be clearly indicated through the return reason code that it is a duplicate using return reason of “duplicate”. This may provide the BOFD with an opportunity to identify the duplicate before charging its customer’s account; some bank’s systems perform an automatic charge back and this identification will not be possible. Once the return is received by the BOFD the problem situation is not necessarily resolved. When the BOFD determines that the return was not caused by typical return reasons or the duplicate was not caused by it or its customer, the BOFD will need to resolve the problem by submitting an adjustment to other parties in the payment system to determine the cause of the problem.

Strong recommendation: Use return reason of “duplicate” to aid BOFD in identifying a duplicate.

- Advantages of using return
- Timely settlement
 - Do not lose right of return
 - This is pertinent for counterfeit or forged items
- Disadvantages of using return
- Bank may not be aware of duplicate and will charge its customer
 - May negatively affect parties who were not likely involved in causing the error
 - Depositing customer
 - Drawer customer

- Once duplicate is recognized by BOFD either prior to posting to customer's account or after posting, BOFD should initiate adjustment to resolve problem; would likely be handled by personnel unfamiliar with adjustment procedures or capable of resolving issue
- Additional processes for BOFD

Conclusion – The decision of a paying bank to adjust or return a duplicate transaction is at the discretion of the paying bank. Banks will perform its own risk analysis in making its decision. Banks are encouraged to seek legal counsel regarding the potential legal risks associated with these processes. Known operational duplicates should be resolved as adjustments. When the cause of the duplicate is unknown, fraud may be involved and the paying bank may choose to resolve the duplicate by returning the transaction to protect its legal right to return the item. Neither process is ideal and has the potential for negative impacts. Regardless of which process the paying bank chooses, all banks in the payments system need to be familiar with the potential for duplicate transactions and their resolution to help alleviate some of the negative impact of these transactions on the banking industry.