

April 27, 2006

**All State Co-operative Banks/  
District Central Co-operative Banks/  
Regional Rural Banks**

Dear Sir

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

Please refer to our circular RPCD.No.BC 31/07.38.01/96-97 dated September 2, 1996, advising that the banks should not collect third party " account payee" instruments on behalf of their constituent societies. As banks are aware, an account payee cheque is required to be collected for the payee constituent.

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 was observed that despite the above mentioned instructions, banks had credited the proceeds of individual account payee refund orders into the accounts of the brokers instead of to the individual accounts on the request of the associates of depository service providers. This has resulted in manipulation of the payment system and has facilitated the perpetration of irregularities. This manipulation would not have taken place but for the banks deviating from the procedure for collection of account payee cheques. The deviations can also not be sanctified as a prudent market practice since it has the potential to expose the banks to various risks.

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 protecting the banks 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 banks that they should not collect account payee cheques for any person other than the payee constituent.**

4. These directions are issued in exercise of the powers conferred under section 35A of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies and Regional Rural Banks).

Yours faithfully,

(V.S Das)  
Executive Director