

FR Internal—FINAL 051104

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Federal Reserve Banks Plan Black-and-White Image Standard and Quality Checks

Minneapolis, Minn., May 18, 2004 --The Federal Reserve Banks today announced that they will adopt the use of TIFF-formatted black-and-white check images (200 to 240 dots per inch) when The Check Clearing for the 21st Century Act, known as Check 21, takes effect on October 28, 2004. In providing its suite of Check 21-enabled services, including image cash letter deposit and return services, the Federal Reserve will not accept image cash letter files containing gray-scale or lower resolution black-and-white images.

The decision to move exclusively to black-and-white images was based on image quality concerns and baseline industry practices, according to Fred Herr, senior vice president, Retail Payments Office at the Federal Reserve Bank of Atlanta. "Under Check 21, image quality will no longer be completely managed in-house. Instead, banks and their customers will receive images and substitute checks created by others," explains Herr. "Consumer and corporate accountholders will need consistent, high-quality image-based services. We believe that the Reserve Banks will best serve this need by providing high-resolution black-and-white images."

"Substitute checks created from black-and-white images seem to be more consistently usable, which will help prevent production bottlenecks and potential indemnification issues when the law takes effect," adds Herr. "We also believe that use of a black-and-white image standard will improve compatibility for exchange between collecting and paying banks."

Herr notes that industry practices associated with assuring check image quality are still in their infancy. The Accredited Standards Committee (ASC) X9 on Financial Transactions (www.X9.org) has produced standards that support both image exchange and substitute check creation and is working to establish a framework for addressing image quality attributes. In addition, the Financial Services Technology Consortium (FSTC) is evaluating the business impact of quality at different performance levels and identifying quality determinants that can be incorporated into technical and process standards. "The Federal Reserve strongly endorses these efforts and participates in both," says Herr.

When Check 21 takes effect, the Reserve Banks plan to employ an image quality assurance package that will screen all images captured by the Reserve Banks for defects and allow corrective action when these defects affect their ability to use the images to support payment processes. "In order to help assure reliable and consistent exchanges in a Check 21 environment, we feel it is important to check the quality of each image," says Dexter Holt, vice president, Retail Payments Office at the Federal Reserve Bank of Boston. Holt chairs the ASC X9B15 standards group on image quality.

Images in all image cash letters deposited with the Federal Reserve will also be checked for quality, effective October 28, 2004. Images that do not meet pass/fail criteria will be charged back to the depositor through the check adjustments process. These pass/fail criteria, which will be developed using the quality standards identified through industry efforts, will include checks for

document length, height, validity, missing or torn corners, document skew, image brightness and compressed image size.

Questions about the Federal Reserve Banks' image business practices can be forwarded to Dexter Holt at dexter.holt@bos.frb.org.

About Check 21

The Check 21 Act facilitates truncation through expanded use of electronic processing technologies to improve the efficiency and reduce the cost of the nation's check collection system. The law provides for a new negotiable paper instrument called a substitute check, which can be used in place of the original paper check without an agreement. This allows paper items to be truncated early in the collection or return process, with image cash letters replacing paper cash letters.

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