

Voluntary Commitments and Codes of Conduct

Cheque Holds

Canada has one of the most efficient cheque clearing systems in the world, processing nearly 1.5 billion cheques a year. In almost all cases, Canadians receive same-day credit. Banks may apply a hold on funds deposited by cheque, however, to protect banks and their depositors from losses. The Canadian Payments Association reports that less than one per cent of deposit accounts are subject to this hold period.

The hold period is a means of managing risk. In this electronic age, people expect transactions to happen right away, but for a cheque to clear the physical cheque still has to be transported from the depositor's branch, through a number of processing centres to the cheque writer's branch, and back again. The depositor's bank, however, does not know whether there are sufficient funds to cover the cheque until it clears and settles. Banks are required to provide their hold policies in writing when an account is opened.

Cheque hold policies vary by institutions and individual accounts, but can be affected by:

- the depositor's history of returned cheques because of insufficient funds;
- the length of time the customer has dealt with the branch;
- the amount of cleared funds already in the account; and
- the amount and type of cheque being deposited.

As of 2007, banks in Canada have reduced the maximum possible cheque hold period to seven business days.

Voluntary Commitment – Reduced Cheque Hold Periods

The members of the Canadian Bankers Association have reduced the maximum cheque hold period from ten business days to *seven business days* as of 2007.

Scope of Commitment

This voluntary commitment applies to cheques deposited by individual consumers to their personal deposit accounts and cheques deposited to commercial accounts operated by small- and medium-sized businesses (SMEs).

Businesses with authorized credit of less than \$1 million, *and* fewer than 500 employees, *and* annual revenues of less than \$5 million are covered by the voluntary agreement. This includes almost all (at least 96%) of bank business credit customers.

The commitment applies to paper based cheques that are encoded with magnetic ink character recognition and that are readable by the operational systems (i.e. not damaged or mutilated), and that are drawn on a financial institution's branch located in Canada and issued in Canadian dollars.

The voluntary commitment does not apply in circumstances where the member bank has reasonable grounds to believe that there may be illegal or fraudulent activity in relation to the account, or other indicators of a suspicious transaction, such as those required to be reported pursuant to *Canada's Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.

Additionally, for SMEs, the voluntary commitment does not apply where the bank reasonably believes there is material increased credit risk. In the normal course of doing business with SME customers, banks may contact the SME account holder to discuss these types of events and would typically advise the account holder that the hold funds period may be extended.

Definitions

Small- and Medium-sized Business (SME)

A business entity's status as a SME will only be verified in the event of a complaint as to a financial institution's compliance with this voluntary commitment. Member banks will not capture data relating to the number of employees or annual revenues of SMEs in the normal course of business operations.

Business Day

For the purposes of this commitment a business day is a day on which the item deposited by a customer enters the clearing exchange system operated by the Canadian Payments Association (CPA). The hold period will commence on the first business day the cheque is entered into the clearing system by the customer's bank accepting it on deposit.

Increased Credit Risk

For the purposes of this commitment, a bank's judgment that they reasonably believe that there is material increased credit risk is based on events such as (but not limited to):

1. an escalating overdraft balance that is not being reduced by deposits received,
2. a negative change in the credit score or other behaviour scores impacting the credit risk of an SME,
3. an unexplained change in the history of cheques deposited to the account (e.g. normal deposit is \$1,000 and now daily deposit is \$100,000),
4. high numbers of cheques deposited that are returned as dishonoured items from other institutions that may impact the available balance in the account, or
5. notice of any bankruptcy proceeding or creditor action against the SME.