



Transforming Transactions
into Relationships

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February 23, 2004

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and C Streets, N.W.
Washington, D.C. 20551

Re: Comments to Proposed Amendments to Regulation CC
Docket No.: R-1 176

Dear Ms. Johnson:

On behalf of the NCR Corporation, I am submitting to you comments regarding the proposed rule to amend Regulation CC. I would appreciate your review of the following issues:

Changes are indicated by *italicized red* font.

Issue 1: Endorsements

NCR requests that language be added to the proposed Reg CC amendments to clarify that endorsements that are physically applied to the original check after image capture will not appear in the image of the original check. This will occur when the imaging camera is installed "upstream" from the endorser (i.e. the image is captured before the check is physically endorsed). An example of where this occurs is NCR item-processing transports (e.g. 7780, iTRAN 8000) that have an upstream image camera installed. This scenario could also apply to other image capturing equipment (current or future) such as ATMs, POS, table top devices, etc. whenever the image is captured before endorsing the item.

Physical endorsements applied after imaging will be conveyed as electronic endorsement(s) and will be printed or "overlaid" on the substitute check by the reconverting bank. Only endorsements physically applied to the original check prior to imaging will be visible in the image of the original check.

Further information regarding this is included in DSTU X9.37 Annex J (Endorsements). DSTU X9.37 Annex J states that "The physical endorsement for the image creator will not appear in the image if the image is captured prior to the item being physically endorsed. This is acceptable, as the electronic endorsement for the image creator institution will appear in

the X9.37 file as either a physical and electronic endorsement or as an electronic endorsement alone."

Recommended Changes

Subpart D – Substitute Checks

229.51 (b) 1 page 40

Current:

"Bears all endorsements applied by parties that previously handled the check in any form..."

Proposed Change:

"Bears all endorsements applied *prior to image capture* by parties that previously handled the check in any form.... *Physical endorsements applied to the check after the image is captured will not appear in the image. The electronic endorsement for the image creator/ truncating institution will be conveyed as either a physical (image) and electronic endorsement, or as an electronic endorsement alone.*"

Appendix E to part 229 (section 229.2 zz) 3. page 62

current:

"...a reconvert bank is required to ensure that a substitute check contains all endorsements applied by previous parties that handled the check in any form. Therefore, the image on the back of a substitute check would include endorsements that were applied to the original check prior to truncation plus a physical representation of any endorsements that were applied electronically to the check after truncation but before creation of the substitute check."

Proposed change:

"...a reconvert bank is required to ensure that a substitute check contains all endorsements applied by previous parties that handled the check in any form. Therefore, the image on the back of a substitute check would include endorsements that were applied to the original check prior to truncation *and image capture* plus a physical representation of any endorsements that were applied electronically to the check after truncation *and image capture* but before creation of the substitute check. *Physical endorsements applied to the check after image capture will not appear in the image. The electronic endorsement for the image creator/ truncating institution will be conveyed as either a physical (image) and electronic endorsement, or as an electronic endorsement alone. Electronic endorsements will be printed or overlaid on the substitute check by the reconvert bank.*"

Appendix E to part 229 (section 229.2 zz) 4. page 62

Current:

"In that case, the back of the subsequent substitute check would contain (1) the endorsements that were applied physically to the original check; (2) a physical representation of endorsements that were applied electronically to the original check after truncation but before creation of the first substitute check; (3) endorsements that were applied physically to

the previous substitute check; and (4) a physical representation of any endorsements that were applied electronically after the previous substitute check was converted to electronic form but before creation of the subsequent substitute check."

Proposed Change:

"In that case, the back of the subsequent substitute check would contain (1) the endorsements that were applied physically to the original check *before image capture*; (2) a physical representation of endorsements that were applied electronically to the original check after truncation but before creation of the first substitute check; (3) endorsements that were applied physically to the previous substitute check *before image capture*; and (4) a physical representation of any endorsements that were applied electronically after the previous substitute check was converted to electronic form but before creation of the subsequent substitute check.

Appendix E XX1.A.2 page 69

Current:

"A substitute check will contain, in its image of the original check or previous substitute check, reprostructions of endorsements that were sprayed onto the previous item."

Proposed Change:

"A substitute check will contain, in its image of the original check or previous substitute check, reproductions of endorsements that were sprayed onto the previous item(s) *prior to imaging the item(s)*."

Appendix E XXX 220.51 (a) 3. page 71/72

Current:

"The information that must be accurately represented includes.....(3) other information placed on the check prior to truncation, such asany endorsements applied to the back of the check."

Proposed Change:

"The information that must bc accurately represented includes.....(3) other information placed on the check prior to truncation, such asany endorsements applied to the back of the check *prior to image capture*."

Appendix E XXX 229.51 (b) 1 page 72

Current:

"Endorsements applied physically to the original check should be preserved through the imaging of the back of the original check. If endorsements were applied electronically after the original check was truncated or were applied electronically after a previous substitute check was converted to electronic form, the reconverting bank must apply those endorsements physically to the substitute check."

Proposed Change:

"Endorsements applied physically to the original check *prior to imaging* should be preserved through the image of the back of the original check. If endorsements were applied electronically after the original check was *imaged and truncated*, or were applied electronically after a previous substitute check was converted to electronic form, the reconverting bank must apply those endorsements physically to the substitute check.

Issue 2: Endorsement Ink Color

The proposed amendment requires that endorsements be printed in black ink. NCR has more than 30,000 item-processing transports installed in the field that use purple endorsement ink. In some cases, black ink is currently not available and may require new black ink formulations to be developed. Switching over to black ink also requires time for the effect of the purple ink to work its way out of the endorsement system. In any event, the Financial Institution would be responsible to make the switch to black ink and would have to bear any associated cost.

In view of the large installed base of endorsers currently using purple ink, NCR recommends that the Fed review the need and benefit for the "black ink only" requirement. The review might also include a reassessment of purple versus black ink from an imaging standpoint.

If it is deemed that black ink is indeed required, then NCR requests that a "grace period" be allowed for FIs to comply with the "black ink only" requirement since it would take time for –

- NCR (and perhaps other vendors) to make black endorsement ink and ribbons fully available for purchase by its customers (in some cases, only purple ink is available today)
- FIs to use up existing stocks of non-black endorsement ink and ribbons.

Recommended changes:

Appendix D (4) page 57

Current:

"Any endorsement, reconverting bank identification, or truncating bank identification placed on an original check or substitute check shall be printed in black ink"

Proposed change (should black ink be required):

"Any endorsement, reconverting bank identification, or truncating bank identification placed on an original check or substitute check shall be printed in black ink. *This requirement shall be effective one year after enactment of the Regulation. Existing purple ink endorsers that cannot be reasonably converted to black ink shall be exempt from this requirement.*"

Appendix E XXI.A 4 page 69

Current:

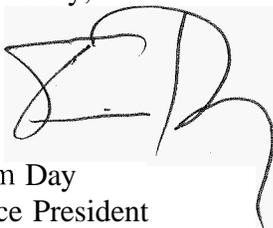
To ensure that endorsements can be easily read and imaged, the standard requires all endorsements applied to original checks and substitute checks to be printed in black ink."

Proposed Change (should black ink be required):

'To ensure that endorsements can be easily read and imaged, the standard requires all endorsements applied to original checks and substitute checks to be printed in black ink. *This requirement shall be effective one year after enactment of the Regulation. Existing purple ink endorsers that cannot be reasonably converted to black ink shall be exempt from this requirement.*'

Thank you for your consideration of these comments. If you have any further questions or comments, please do not hesitate to contact me at 202.347.6744.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tim Day', written over a light gray rectangular background.

Tim Day
Vice President