

# Prohibition of Tele-cheques in the Automated Clearing Settlement System

## Policy Statement

### 1. Background

In February 2002, the CPA Board of Directors became aware of a paper payment instrument commonly referred to as a "tele-cheque". A tele-cheque is a paper item that has the physical attributes of a cheque, but unlike a typical cheque, it is prepared and signed by someone (usually a Payee) purporting to act on the authority of the account holder (i.e., the Payor) and as such does not include the signature of the Payor. To initiate a tele-cheque, the Payee generally obtains the necessary account information from the Payor over the telephone or via the Internet. Furthermore, the payment is not supported by an underlying written authorization [e.g., Payor's Pre-Authorized Debit (PAD) Agreement or power of attorney]. By reason of the manner in which the account information is obtained and the item is created, a tele-cheque is also commonly referred to as a "cheque-by-phone" or an "e-cheque".

The key risk associated with a tele-cheque is fraud (i.e., risk of unauthorized payment). This particular type of payment does not contain the signature of the Payor nor is it supported by any other form of signed authorization. Given this, it is impossible for the Payor financial institution to verify that the Payor has in fact authorized the Payee to act as a signatory for the specific payment. Furthermore, the risk of unauthorized payments is elevated since a Payee could issue a tele-cheque against a Payor's account simply after obtaining the necessary account details. In this regard, to permit tele-cheque entry into the clearing system would increase the risk that unauthorized parties would use this vehicle to gain access to deposit accounts fraudulently.

In studying the tele-cheque issue, the CPA considered whether procedures could be put in place to sufficiently mitigate the risks associated with this payment instrument. In its assessment, the CPA consulted broadly with financial institutions and payment system service providers and users. There was a generally held view that tele-cheques represent an unacceptable level of risk, since the key to mitigating the risk of unauthorized transactions is the ability to verify authorization.

### 2. Policy

In line with its legislated mandate to promote the safety, soundness and efficiency of Canada's clearing and settlement systems, the CPA Board of Directors has agreed that tele-cheques will be prohibited from the clearings, effective January 1, 2004. In this regard, CPA Rules will be amended to clarify that cheques and other valid bills of exchange must have proof of signing authority (i.e., customer or power of attorney) on file at the CPA member financial institution holding the payor's account to be eligible for clearing.

As an interim measure to protect consumers, the CPA Board of Directors has approved a temporary rule amendment that provides for the return of any unauthorized tele-cheque through the clearings for up to 180 days. In the intervening period before the policy takes effect, the CPA strongly discourages members from expanding upon any existing arrangements involving the use of tele-cheques for entry into the CPA's clearing and settlement systems.

ISSUED BY THE CPA BOARD OF DIRECTORS ON JUNE 1, 2003