

**“RBI issued circular to all banks to discontinue the practice of giving credit to customers against pay orders drawn on banks not accompanied by a letter by the issuer to give credit to the holder of instrument.”**

True Copy

RESERVE BANK OF INDIA  
CENTRAL OFFICE  
DEPARTMENT OF BANKING OPERATIONS AND  
DEVELOPMENT  
CENTRE-1 WORLD TRADE CENTRE  
CUFFEE PARADE COLABA BOMBAY 400005

BP.BNC.23/21.01.001-92

September 9, 1992

Bhadra 18,1914 (Saka)

The Chairman/Chief Executives of  
Scheduled Commercial Banks (excluding RRBs)

Dear Sir,

Payment of cheques/Pay orders

It has come to our notice that banks have undertaken large value transactions with third parties on a significant scale by means of cheques drawn on their accounts maintained with Deposit Accounts Department of Reserve Bank of India (RBI) in the names of other banks maintaining accounts with the RBI. As banks are aware, the facility of maintaining accounts with RBI has been granted mainly to enable Banks to fulfil their statutory obligations, settlement of transactions with RBI/Government, settlement of inter-bank transactions or adverse clearing balances. It is reiterated that the accounts maintained with RBI should be utilised only for these purposes and not for facilitating credit to accounts of third parties.

2. It has also been revealed during investigation that banks have credited cheques drawn in their favour by other banks marked Account Payee “to the accounts of constituents even when they are not named in the cheques as the beneficiaries’. In the case of cheques not having been drawn in the names of constituents the proceeds thereof, or having any other independent direction to that effect, the amount cannot be paid to the constituent. If any bank credits the account of a

constituent who is not the payee named in the cheque without proper mandate of the drawer, it does so at its own risk and will be responsible for the unauthorised payment. Payment system require that the legal requirements laid down in the various relevant laws are fully observed. In the case of "Account Payee" cheques wherein a bank is a payee, the payee bank should always ensure that there are clear instructions for disposal of proceeds thereof from the drawer of the instrument. If there are no such instructions, the cheque should be returned to the sender. RBI reiterates the position that crediting of proceeds of such cheques to parties otherwise than in pursuance of clearly delineated instructions of issuer of such cheques is unauthorised and should not be done under any circumstances. Banks cannot and also should not invoke market practice in justification of doing that which is not supported by law or recognised banking practice. These instructions should be carefully noted. Banks which indulge in any deviation from these instructions would invite severe penal action.

3. Kindly acknowledge receipt of this letter.

Yours faithfully

Sd/-

(V Rangarajan)

Addl. Chief officer.