

ADDRESSING NEW CANADIAN CHEQUE FORMAT STANDARDS

(by Ric Borlase, CMA, I.S.P., F.H.Black & Company, December 1, 2005)

Over the next year, all Canadian organizations producing paper cheques for payments will need to address proposed changes, initiated by the Canadian Payments Association (CPA) (www.cdnpay.ca). The CPA is a not-for-profit association created in 1980 by an Act of Parliament. The CPA's mandate, and authority as amended through the [Canadian Payments Act](#) in 2001, is:

- to establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments;
- to facilitate the interaction of its clearing and settlement systems and related arrangements with other systems or arrangements involved in the exchange, clearing or settlement of payments; and
- to facilitate the development of new payment methods and technologies.

A new cheque standard (CPA Standard 006) initiated in January 2005 and revised in July sets guidelines for the attributes and usage of cheques to be acceptable for Canadian commerce. As cheque processing technologies evolve, so too does the standard for the physical cheques to be able to work within these new processes. CPA Standard 006 supports the use of cheques by creating a more efficient processing system, expecting to produce benefits including:

- Cheques will clear faster. A cheque could be posted in hours instead of days.
- The ability to detect cheque fraud more quickly.
- Businesses will likely require less physical space to store standardized electronic cheque images than original paper cheques.
- On-line access to standardized cheque images on bank statements will enable quick and easy reconciliation of bank accounts.
- Businesses will benefit from more timely notification of unpaid cheques and can commence collection actions right away.

This new standard takes effect on December 31, 2006. Essentially, this provides a year to phase out any cheque stock currently in use, and provides a transition period for organizations re-ordering new cheque stock to ensure that:

- any new cheque stock produced is compliant with the new standard; and
- any systems used to issue cheques are converted and tested to comply with the new standard.

Note that the potential ramifications of NOT complying with the new standard are somewhat based on each individual financial institution's willingness and ability to clear non-standard payments, and could result in a situation whereby:

- cheques cannot be cleared, resulting in inevitable disruption to vendor and customer relations; or
- financial institutions apply additional fees to clear these non-standard cheques.

While the overall standard is quite extensive, the most notable changes to the cheque specifications include:

- adoption of a numeric date field in one of three specified formats (YYYYMMDD, MMDDYYYY or DDMMYYYY). Field indicators must be printed below the date field to indicate which format is being used. Bilingual date field indicators are accommodated for cheques using the ISO date format (YYYYMMDD);
- a mandatory serial number in the MICR line encoded on the bottom of the cheque (until now the serial number has been optional);
- an increase in the minimum length of a cheque from 6" to 6 ¼", or 15.88 cm, to ensure there is sufficient space to accommodate the mandatory serial number in the MICR line;
- standardized positions for key fields on the cheque, such as the date field and the amount in figures;
- disallowance of elements that may hinder the capture of images or data from the cheques (e.g. inverse printing, italics or slanted fonts, a bottom border printed below the MICR line and the use of black carbon on the reverse of cheques will not be permitted);
- a provision to ensure that security features do not interfere with key data or "areas of interest" as defined in Standard 006, Part A, either prior to imaging or post imaging.
- new printing requirements on the reverse of the cheque so that image capture can be verified;
- some revisions to technical specifications (e.g. maximum Print Contrast Signal) to ensure high-quality images can be captured.

What does this mean to you?

- In all cases, organizations will have to ensure that the physical cheque stock being used will conform to the new standard.
- For organizations using many leading accounting software solutions, it can be expected that a new release or update is currently available, or will be very shortly, and you should plan for the application of such upgrades in early 2006.
- If no such remedy is available from your software vendor, you should plan to make the appropriate customized programming changes to the print layout for your cheques.
- Any changes to your cheques (physical, and/or the encoding) may require acceptance from your banking institution. You should contact them and determine if you will need to produce a series of sample cheques for them to test.

Deadline for Adopting New Cheque Specifications Extended

As of May 12, 2006, the deadline for adopting the new cheque specifications has been extended to June 30, 2007 in order to allow businesses more time to make the necessary changes to their cheques and modify or update their softwares involved in cheque production.

This timeline will continue to ensure that cheques are "image-friendly" in preparation for the transition to image-based clearing.

For further reference, and specific details, please reference the following articles from the CPA website:

- [Overview of Changes to Cheque Specifications](#)
- [Standard 006, Part A: Standards and Specifications for Imageable MICR-Encoded Cheques](#)
- [New Cheque Sample Layout](#)
- [Frequently Asked Questions: New Cheque Specifications](#)
- [Summary Report on Stakeholder Consultations](#)
- [News Release issued January 10, 2005](#)