

UNDERSTANDING SEC CODES: FROM ARC TO XCK

Date XX, 20XX

Presented by:



Ellen Jacques, AAP
Director, TCH Payments Association
212-613-9892
ellen.jacques@theclearinghouse.org

Agenda

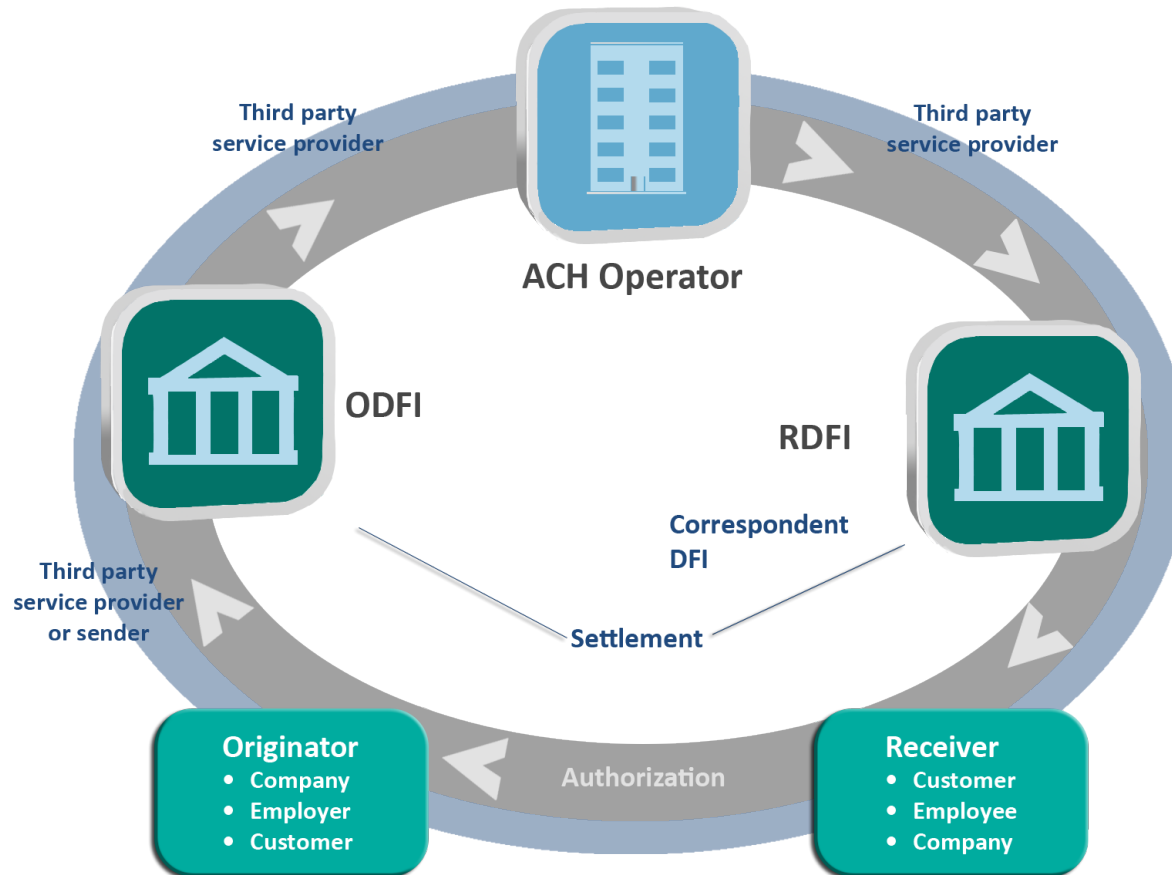
- ACH – a brief overview
- Standard entry class codes
 - Definitions
 - Benefits of usage
 - Examples
 - Legal framework

Who are the ACH Participants?

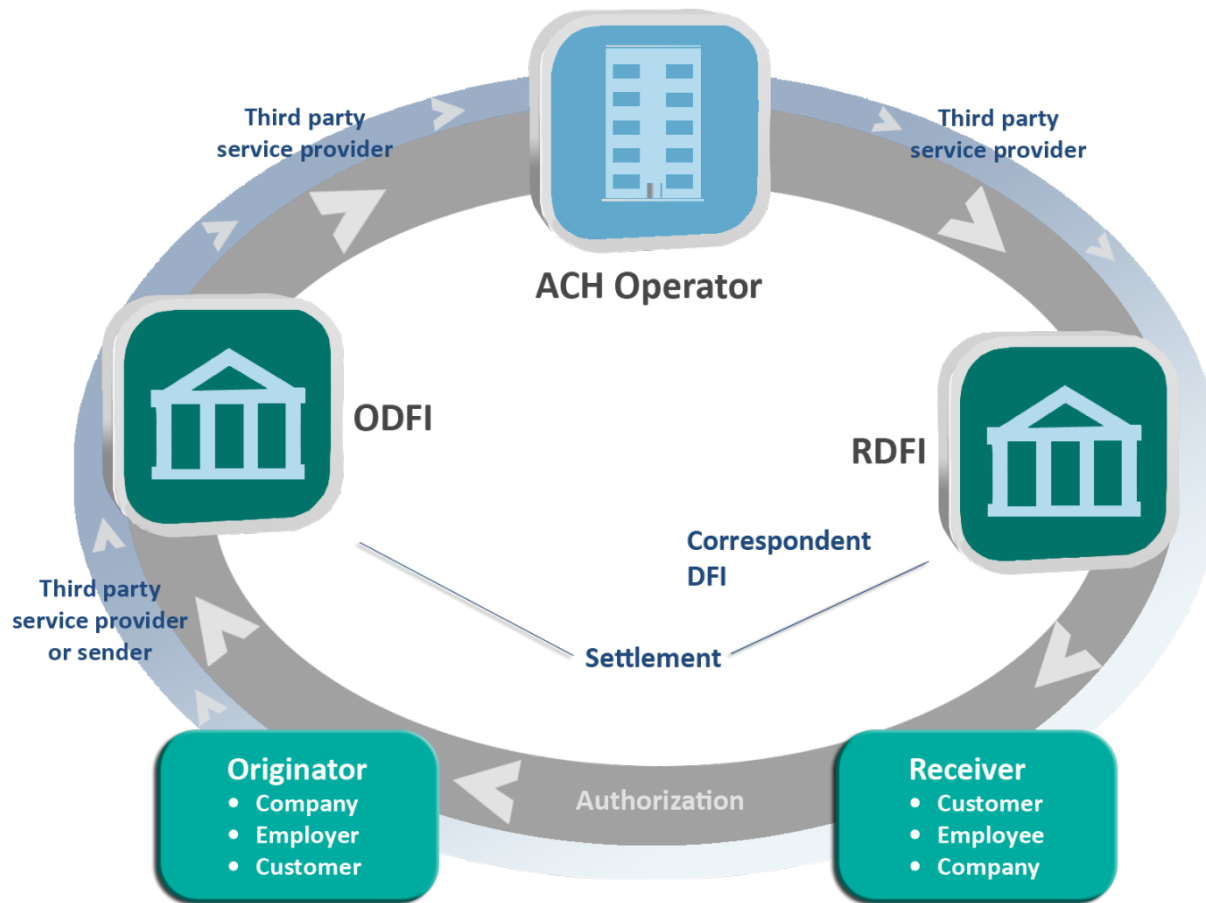
- Receiver
- Originator
- ODFI
- ACH Operator
 - Federal Reserve Bank (FedACH)
 - Electronic Payments Network (EPN)
- RDFI
 - Optional Parties:
 - Third Party Service Provider (TPSP)
 - Third Party Sender
 - Correspondent Bank



ACH Payment Flow — with Optional Participants



ACH Payment Flow — with Optional Participants



Rules and Regulations Governing ACH Transactions

2012 NACHA Operating Rules	www.achrulesonline.org
Regulation CC, D and E	http://www.federalreserve.gov/bankinfo/reg/regist.htm
31 CFR Part 210	www.fms.treas.gov/greenbook
Office of Foreign Assets Control	www.treas.gov/offices/enforcement/ofac
ODFI/Originator Agreements	(NACHA Operating Guidelines Appendix C OG255-256)
UCC4A	www.law.cornell.edu/ucc/4A
State laws	

Standard Entry Class Code

- A Standard Entry Class (SEC) Code is the three character code that identifies the payment type and formatting requirements
- The SEC Code permits various kinds of ACH Entries to be distinguished
- The SEC Code is found within the ACH Company/Batch Header record of the ACH File

All Standard Entry Class Codes (SEC)

Three character code that identifies the payment type and formatting requirements

Consumer Codes

- CIE – Customer Initiated Entry
- DNE – Death Notification Entry
- ENR – Automated Enrollment
- PPD – Preauthorized Pay/Deposit
- RCK – Represented Check
- TEL – Telephone Initiated Entry
- WEB – Internet Initiated/Mobile Entry

Other Codes

- ADV – Statement of Activity – ACH format
- COR – Correction (NOC)

Consumer Codes

- Corporate Codes
- ACK, ATX - Acknowledgements
- CCD – Corporate Credit or Debit
- CTX – Corporate Trade Exchange

Consumer/Corporate Codes

- ARC – Accounts Receivable Entry
- POP – Point of Purchase
- BOC – Back Office Conversion
- TRC, TRX - Truncated Checks
- XCK – Destroyed Check Entry
- IAT – International ACH Transactions

Debit Card/POS Entries

- MTE – Machine Transfer Entry
- POS, SHR – Point of Sale, Shared

Rules and Regulations Governing Consumer ACH Transactions

- 2012 NACHA Operating Rules
- Regulation CC
- Regulation D
- Regulation E



Consumer Codes

- CIE – Customer Initiated Entry
- DNE – Death Notification Entry
- ENR – Automated Enrollment
- PPD – Preauthorized Pay/Deposit
- RCK – Represented Check Entry
- TEL – Telephone Initiated Entry
- WEB – Internet Initiated Entry



CIE – Customer Initiated Entry

- Used to identify credit Entries initiated by an Originator (consumer), usually to pay an obligation of such individual
- May be accompanied by one Addenda Record that relays information using payment-related ANSI ASC X12 data segments
- FI or service provider provides online bill pay platform, consumer enters the information for the Receiver and a CIE credit Entry is created and sent through the ACH Network
- Consumer is the Originator of the debit, company is the Receiver of the credit
- CIE is now used for Secure Vault Payments and EBIDS payments as well

DNE – Death Notification Entry

- A non-monetary entry from a Federal Government agency
- Notifies the Financial Institution that the recipient of a government benefit has passed away
- Governed by 31 CFR Part 210
- Allows for the reclamation process to begin

DNE – Benefits

- Allows the RDFI to take steps to reduce exposure to loss resulting from the withdrawal of funds after the beneficiary's death by a joint account holder
 - The RDFI must flag the account and return any future government payments
- Reduces and allows for the reallocation of the RDFI's resources that are used to process Government reclamation actions
- Possible reduction of the number of reclamations produced by the U.S. Department of Treasury's Financial Management Service, saving the RDFI processing costs
- RDFIs can limit their losses due to reclamations

ENR – Automated Enrollment

- The ENR process allows DFIs to transmit information to Federal Government agencies, on behalf of their account holders, that serves as an enrollment for either ACH credit or debit activity
 - It is a Non-Monetary Entry that triggers the origination of ACH credit or debit transactions to the account holder at the DFI
 - Governed by 31 CFR Part 210
- Additional use began in 2011: Allows FIs to originate enrollments for Electronic Billing Information Delivery Service (**EBIDS**) for automated receipt of billing statement to consumer through online banking

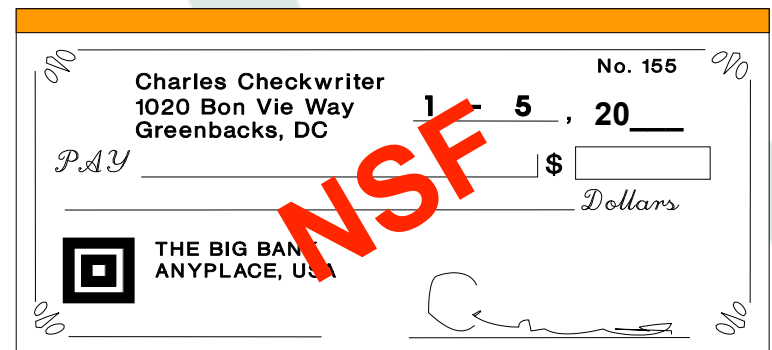


PPD – Prearranged Payment and Deposit Entries

- Most common SEC: recurring consumer credits or debits
 - Considered a “native payment”
 - First type of ACH payment
 - Lower risk
- Preauthorized in writing, signed or similarly authenticated
- Copy of authorization is provided to consumer
- Originator must maintain authorization for 2 years beyond revocation
 - Must provide a copy of authorization to RDFI within 10 banking days of written request
- Originator must inform Receiver of changes
 - In Settlement Date – 7 calendar days in advance
 - Of amount – 10 calendar days in advance

RCK Entries – Re-presented Check Entries

- Used to electronically re-present paper Checks dishonored for NSF/Uncollected funds
- Governed by Reg CC, UCC law and the *NACHA Operating Rules*
- Originator must notify Check writer of policy before accepting Check
 - Notification
- RCK Entry must be sent for face amount of Check only
 - Fees must be sent separately using the appropriate SEC code (such as PPD)
- 3 presentments only
 - 1 by Check and 2 by ACH (or)
 - 2 by Check and 1 by ACH



RCK Entries – Re-presented Check Entries

- RCK-eligible items include:
 - Amount less than \$2,500
 - Contains pre-printed Check Serial Number
 - Indicates on document face: “Not Sufficient Funds,” “NSF” or “Uncollected Funds”
 - Drawn on Consumer account
 - Not dated more than 180 days previous
- Additional warranties by ODFI for RCK Entries include:
 - Good title
 - Authentic and Authorized signatures
 - Item has not been altered
 - No claims to item
 - No knowledge of insolvency
 - RCK Entry accurately reflects the original item
 - Encoding is correct
 - Restrictive endorsement is void or ineffective
 - ODFI will provide to RDFI a copy of the front and back of the item within 10 Banking Days of RDFI’s written request

TEL – Telephone-initiated Entries

- Permits Originator of a Single-Entry or recurring consumer debit to obtain the consumer's authorization (and banking information) orally via the telephone
 - Governed by Regulation E and the *NACHA Operating Rules*
- May be transmitted when there is:
 1. An existing relationship between Originator and consumer, or
 2. No relationship between Originator and consumer, but consumer initiates the call
- Originator must either:
 1. Tape record the consumer's oral authorization, or
 2. Provide, in advance of the Settlement Date, written notice to consumer confirming oral authorization (Written notice must be provided for recurring TEL authorizations as per Reg. E)
- Requirements include minimum information that must be included by Originator as part of the authorization
- Payment Type Code field indicates whether Entry is Single or recurring

TEL – Telephone-initiated Entries

- Risk concerns
 - Potential for misuse through the origination of an unauthorized ACH Debit transactions
 - Some Entries may be originated as a result of deceptive and fraudulent telemarketing practices
 - Correlation has been established between high return rates and Originators violating the *NACHA Operating Rules* or are engaged in potentially fraudulent or deceptive trade practices
- Authorization Revoked (R07) for Single-Entry TEL – is now allowed if Entry was scheduled “in advance”

Web – Internet-initiated/Mobile Entries

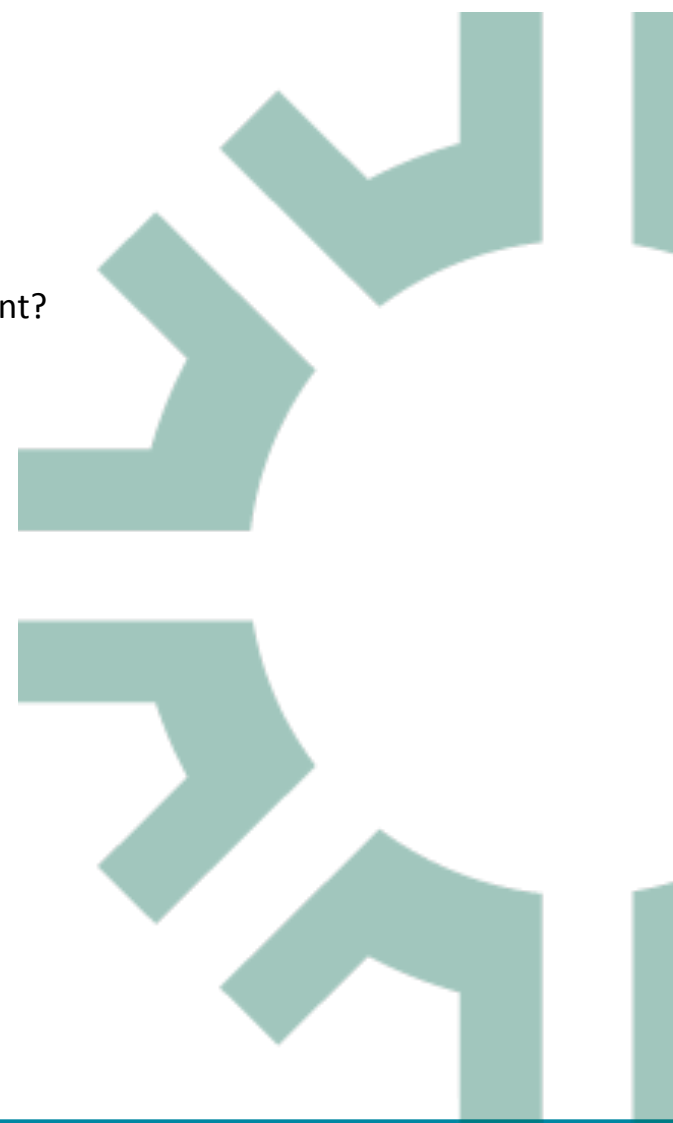
- Identifies consumer debit Entry initiated pursuant to authorization obtained from Receiver via the Internet or Wireless Network
- Governed by Regulation E and the NACHA Operating Rules
- Debit can be recurring or a one-time transfer (Single Entry) from a consumer account
 - ‘R’ for recurring
 - ‘S’ for single
 - Can be found in the Payment Type Code field
- Authorization Revoked (R07) for Single-Entry WEB – is now allowed if Entry was scheduled “in advance”

Web – Internet-initiated/Mobile Entries

- Web transactions are associated with high risk because of the anonymous nature of the Internet
- Originators must employ stringent risk management requirements including:
 - Authentication
 - Fraudulent Transaction Detection Systems
 - Verification of Routing Numbers
 - Security of Internet sessions
 - Annual Security Audits (Appendix Eight)
- ODFIs should address the risk issues related to web transactions within the agreements they have with their Originators

It's Quiz Time!

- What SEC Code is used for an automated enrollment?
- What type of transaction takes place in an anonymous environment?
- What SEC Code is used for a direct payment?
- Are recurring TEL transactions allowed?
- What governs government payments?



Regulations Governing Consumer and Corporate Transactions

- 2012 *NACHA Operating Rules*
- Regulation E
 - Regulation E provides a 60-day return time frame for *unauthorized transactions* on both consumers and corporates that are participating in ARC, BOC and POP Entries
- OFAC screening for International Transactions (IAT)

Consumer and Corporate SEC Codes

- ARC – Accounts Receivable Conversion
- POP – Point of Purchase
- BOC – Back Office Conversion
- TRC, TRX – Truncated Checks
- XCK – Destroyed Check Entry
- IAT – International ACH Transaction

ARC – Accounts Receivable Entry

- Originators can convert consumer or corporate Checks (*that do not contain an auxiliary on-us field*) received 1.) via U.S. mail, 2.) at a drop box location, or 3.) in person for payment of a bill at a manned location and then converted to be collected via the ACH
 - Must be \$25,000 or less
 - Ineligible items are HELOC, credit card checks, and others
- Originator must provide notice to the Receiver in advance (sample wording is provided in *Rules*)

ARC – Accounts Receivable Entry

- ODFI warranties include:
 - Entry information is accurate
 - Eligible Source Document may not be presented for payment
 - Copy of front of source document kept for two years by Originator & will provide copy to ODFI upon request
 - Secure storage of payment information
 - Originator has employed commercially reasonable methods to store all source documents until destruction and all banking information related to ARC Entries

ARC – Accounts Receivable Entry

- Risks for ODFI
 - Originators are responsible for verifying the Receiver's account information but not account owner
 - Secure storage of copy of item
- Risks for RDFI
 - Unauthorized transactions posting to consumer's account
 - A depository institution could be presented with an invalid ACH transaction, a “duplicate” in the form of the original Check, an image presentment, or an IRD, depending on how the original item was processed and who came into possession of what instrument or information

BOC – Back Office Conversion Entry

- Originators can decide whether to convert consumer or corporate Checks (*that do not contain an auxiliary on-us field*) received in person for purchases or payments and initiate a one-time ACH debit (or) process as a Check
 - If converted to an ACH debit, the Check:
 - Must be \$25,000 or less
 - Ineligible items are HELOC, credit card Checks, and others
- Based on notice equals authorization and use of the Check as a source document
- The Check will be not be returned to the Receiver
- A copy of the authorization notice must be given to the Receiver at the point of purchase/
manned bill payment location

BOC – Back Office Conversion Entry

- Minimizing Risks associated with BOC
 - Originator verifies the identity of the Receiver prior to accepting Check
 - Originators must securely store all documents associated with the BOC Entry
 - Originator provides Customer Service Telephone Number on the notice, and warrants that all Entry information captured is accurate
 - ODFIs must keep specific information on the Originator
 - Company name
 - Address
 - Telephone number
 - Contact person
 - Taxpayer ID number
 - Description of the nature of the business
 - ODFI must provide the specific Originator information within two Banking Days of receipt of RDFI's written request

POP – Point-of-Purchase Entry

- Originators can convert consumer or corporate Checks (*that do not contain an auxiliary on-us field*) received in person for purchases or a manned bill payment location and initiate a one-time ACH debit
 - Must be \$25,000 or less
 - Ineligible items are HELOC, credit card Checks, and others
- Based on written authorization and use of the Check as a source document
 - The Check will be voided and returned to the Receiver at the point of purchase
 - A copy of the written authorization and a receipt for purchases must be provided to the Receiver as well

POP – Point-of-Purchase Entry

- To minimize Risk, ODFIs warrant:
 - The Originator has provided each Receiver with receipt containing specific information, for each POP transaction
 - The source document used for POP Entry must be voided and returned to the Receiver at point of purchase
 - The source document used for POP Entry has not been used in any prior POP Entry by the Receiver
- The POP receipt must contain:
 - Originator name and Merchant number
 - Company or TPSP telephone number
 - Date of Transaction
 - Transaction Amount
 - Check Serial Number of Eligible Source Document
 - Terminal City and Terminal State (as defined in Reg E)

TRC – Truncated Entry

- Identifies a single truncated Check being safekept by the Originator as defined by a Check truncation program and processed as an ACH debit Entry

TRX – Truncated Entries Exchange

- Identifies truncated Checks being safekept by the Originator as defined by a Check truncation program
- Allows financial institutions to use a single ACH Entry to carry information from multiple Checks
- Must be accompanied by Addenda Records that relay information formatted in National Association for Check Safekeeping syntax
 - TRX allows one Entry for multiple Checks, using up to 9,999 Addenda Records – one for each truncated Check

XCK – Destroyed Check Entry

- Used to identify debit Entry initiated by an ODFI when Check(s) contained in a cash letter has been lost, destroyed or otherwise unavailable while in transit for presentment to a paying bank
- **September 16, 2011 – Expanded usage of XCK**
 - Now also allows use of XCK to collect Checks that are damaged and cannot be imaged, or for which the image cannot be processed, such as:
 - A Check missing part of the MICR line but can be repaired to create an ACH debit
 - A Check that is unreadable, obscured, or mutilated and prevents automated check or image processing, but has an intact MICR line
- RDFI may return XCK Entries (at its sole discretion) with Return Code R33 (60 calendar day return time frame)
- ODFI must provide a copy of the item to which the XCK relates to the RDFI within thirty days of receiving RDFI's written request – if received within six years from the date the XCK was initiated

IAT – International ACH Transaction

- Implemented: September 18, 2009
- Identifies a debit or credit Entry that is part of a payment transaction involving a financial agency's office that is not located in the territorial jurisdiction of the US
- IAT Entries are structured to comply with U.S. Law and:
 - Carry the additional data requirements included in the Bank Secrecy Act's "Travel Rule" as requested by OFAC
 - 7 Distinct Mandatory Addenda Records – each supplying additional identification for the different parties to the transaction
 - Also allows 2 Optional Remittance Addenda Records and up to 5 Optional Addenda Records to identify Foreign Correspondent FIs*
 - May contain OFAC Screening Indicators to aid FIs in effective interdiction of unlawful transactions ("1" suspect, "0" non suspect)



IAT – International ACH Transaction

- ACH Operators acting as a Gateway may process Outbound debit and credit Entries but must limit Inbound IAT Entries to credits only; whereas DFIs acting as a Gateway may process Inbound and Outbound debits and credits
 - Gateways that identify suspect inbound debit Entries must not forward those Entries to the RDFI, but contact OFAC first
- RDFIs receiving Inbound IATs must additionally screen all IAT Entries in their entirety (Receiver, Originator and Addenda information)
- ODFIs – Review all parties to an Outbound IAT transaction for OFAC compliance prior to origination to ACH Operator
- Certain Rules Exceptions exist for Inbound and Outbound IAT Entries to the extent that the laws and payment system rules of the foreign country apply



Corporate Codes

- ACK, ATX – Acknowledgements
- CCD – Corporate Credit or Debit
- CTX – Corporate Trade Exchange



Rules and Regulations Governing Corporate Transactions

- *NACHA Operating Rules*
- UCC4A
(Default is New York state law)

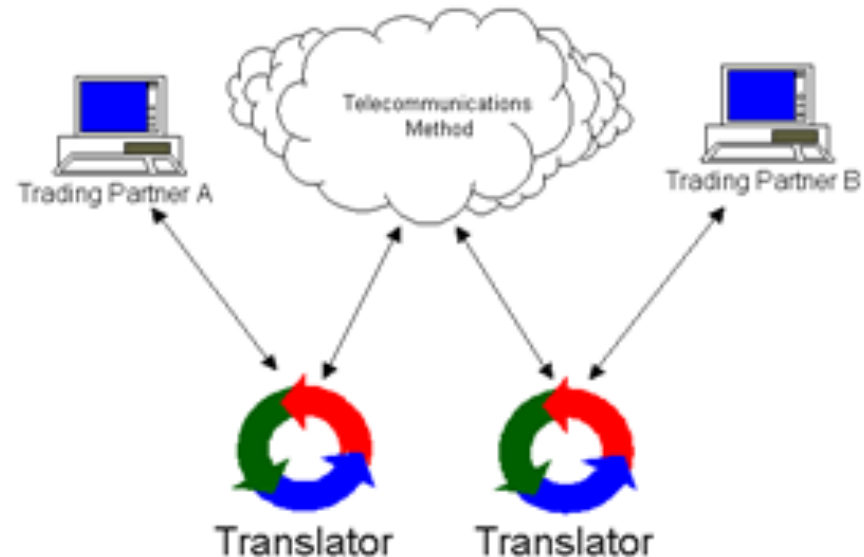


ACK – Acknowledgment Entry

- Identifies an acknowledgment of receipt by the RDFI of a corporate credit payment and (optional) related information originated using the **CCD** format
 - May be accompanied by one Addenda Record which relays information about the financial EDI credit payment
- Optional Entry and done by mutual agreement between the RDFI and the ODFI

ATX – Financial EDI Acknowledgment

- Identifies an acknowledgment of receipt by the RDFI of a corporate credit payment and (optional) related information originated using the **CTX** format
 - May be accompanied by 1 one Addenda Record
- Optional Entry and done by mutual agreement between the RDFI and the ODFI



CCD – Corporate Credit or Debit

- Identifies debit and credit Entries initiated by an Originator to create a transfer of funds to or from the account of that organization or another organization
 - May be accompanied by one Addenda Record (sometimes referred to as “CCD+”)
- Most common B to B payment type through ACH
- Authorization/agreement rules indicate that the two parties must agree to follow *NACHA Operating Rules*
- CCD+ has been selected by the Healthcare Industry for healthcare related EFTs (Electronic Funds Transfer) including the Addenda Record containing Reassociation data to match to Electronic Remittance Advices (ERA)

CTX – Corporate Trade Exchange

- Is also a “B2B” payment where both Originator and Receiver are companies
- Identifies credit or debit Entries originated by an Originator to pay or collect an obligation of the Originator and destined for the account of another organization
- Authorization/agreement rules indicate that the two parties must agree to follow *NACHA Operating Rules*
- A CTX payment can have up to 9,999 optional Addenda Records—containing extensive remittance details (EDI formats)—is commonly used by the U.S. government to pay vendor companies for good or services provided
 - Use of CTX by companies is on the rise

CCD/CTX Risk

- There is risk associated with unauthorized transactions and CCD/CTX Entries
 - The return time frame for these corporate unauthorized transactions is 2 days from Settlement Date (R29)
 - RDFIs need permission from an ODFI to return these Entries after the 2 day return time has passed (R31)
 - Corporate customers of RDFIs need to closely monitor their accounts in order to promptly report any unauthorized transactions they become aware of
- Agreements must be in place between Originators and ODFIs before any transactions occur

Debit Card/POS Entries

- MTE – Machine Transfer Entry
- POS, SHR – Point of Sale Entry, Shared Entry

MTE – Machine Transfer Entry

- Identifies a credit or debit Entry that was initiated at an electronic terminal to effect a funds transfer to or from a deposit account of an Originator maintained with a RDFI
 - Must be accompanied by an Addenda Record to provide the terminal location, city, state and other required information

POS – Point of Sale

- POS Entry identifies a debit initiated at an electronic terminal as defined in Regulation E
- Usually initiated by the use of a merchant-issued plastic card
- Originated in a non-shared system in which no agreement other than the *NACHA Operating Rules* exist between the ODFI and the RDFI
- Must be accompanied by an Addenda Record to provide the terminal location, city, state and other required information

SHR – Shared Network Transaction

- Identifies debit Entries initiated at an electronic terminal as defined by Regulation E
- Usually initiated by the use of a bank-issued plastic card
- Like a POS Entry, except that it originates in a shared system where an agreement, in addition to the *NACHA Operating Rules* exists between the ODFI and RDFI
- Must be accompanied by an Addenda Record to provide the terminal location, city, state and other required information

Other Codes

- ADV – Statement of Activity – ACH format
 - To identify automated accounting advices of ACH Accounting information in machine-readable format and to facilitate the automation of accounting information for participating DFIs
 - Optional service provided by ACH Operators only
 - Must be requested
 - A Non-Monetary Entry

Other Codes

- COR – Correction (NOC, Notification of Change)
 - Identifies an automated Notification of Change or a refused Notification of Change
 - A COR Entry must be accompanied by an Addenda Record to specify Change Code and changed information
 - A Non-monetary Entry
 - RDFI deadline: two Banking Days after Settlement Date to send an NOC, except in cases of merger/acquisition

COR – Notification of Change Entry

- It is the responsibility of the ODFI to ensure the Originator makes the necessary changes before initiating the next live dollar transaction
- In the event there is an error with the NOC received from the RDFI, it is the responsibility of the ODFI to return it back to the RDFI within 15 days (A Refused NOC)
- The RDFI may make the changes listed in the Refused NOC and send a corrected NOC to the ODFI within 5 Banking Days
- NOC, Refused NOC and Corrected NOC all use **COR** Code

It's Quiz Time—Again!

- Which Standard Entry Class Code would be used when a check that is mailed in as a bill payment is converted to an ACH Transaction?
- Which Standard Entry Class Code would be used for a credit transaction to a consumer's account that came via ACH from a company in Europe?
- What is the SEC Code for a Correcting Entry?
- Explain the difference between a CCD and a CTX
- When would you see an ACK SEC Code Entry?

Additional Resources

- epaynetwork.com
- nacha.org
- achrulesonline.org
- paymentsuniversity.com
- electronicpayments.org

Questions?

Thank you for your participation!



