



ACH QUICK REFERENCE GUIDE



2015 EDITION

How To Use This Guide

The purpose of the *ACH Quick Reference Guide* is to provide instruction to financial institution personnel involved in the day-to-day activities associated with receiving commercial ACH transactions. It is ideal for training personnel on ACH procedures and as a quick reference for ACH questions. The *Guide* contains an appendix with sample reports, Return and Notification of Change codes, and a glossary of ACH terminology.

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This user-friendly guide is based on the 2015 *NACHA Operating Rules* (referred to as the *ACH Rules*), Regulation E and the Uniform Commercial Code Article 4A (UCC 4A) and supplements more extensive resource materials. It references various in-depth resource materials and is not intended as a substitute for referencing and complying with the rule requirements published

in the *ACH Rules*. Procedures for handling federal government entries are not covered in this guide. Although many procedures may be similar, federal government entries are also subject to Title 31 Code of Federal Regulations Part 210 (31 CFR Part 210), which are outlined in the *Green Book*. For a copy of the *Green Book*, visit www.fiscal.treasury.gov.



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WHAT IS THE ACH NETWORK?

The Automated Clearing House (ACH) Network is an electronic payments network used by individuals, businesses, financial institutions and government organizations. It allows funds to be electronically debited or credited to a checking account, savings account, financial institution general ledger account or credited to a loan account.

The ACH Network is the backbone for the electronic movement of money and other related data, providing a safe, secure, reliable network for direct consumer, business and government payments. Large and small financial institutions of all kinds jointly govern

and utilize the ACH Network, facilitating billions of payments such as Direct Deposit via ACH and Direct Payment via ACH.

The ACH Network is a batch processing, store-and-forward system. Transactions are stored by financial institutions throughout the day and processed at specified times in a batch mode.

The ACH Network exchanges funds and payment-related information throughout the United States, its territories and internationally.

WHO ARE THE ACH PARTICIPANTS?

There are five key participants that contribute to the successful completion of an ACH transaction. As each participant is discussed, the financial institution should better understand the role it plays in the system.

The **Originator** is the company/business that has been authorized by the Receiver to either credit or debit an account. When a company initiates a credit transaction to their employee's account for payroll or to a business customer's account for payment of goods and services, it is considered the Originator. Originators may also initiate debit transactions to a consumer or business account for payment of goods or services.

The **Receiver** can be either an individual or a company that has authorized the Originator (company) to credit or debit their account. The employee is the Receiver if his/her employer is initiating a Direct Deposit payroll credit. A business partner is the Receiver if the Originator is sending a credit to pay for goods or services. The Originator can also be a Receiver, in situations where another party is initiating credits or debits to their account.

The authorization is a key component of an ACH transaction, as it gives the Originator the authority to send credit or debit transactions to the Receiver's account. The manner in which the authorization may be obtained varies based on the type of transaction and is discussed in greater detail in the Authorization section of this *Guide*.

The **Originating Depository Financial Institution (ODFI)** is the financial institution with which the Originator (company) has a contractual relationship for ACH services and is responsible for sending ACH entries into the ACH Network on behalf of the Originator. Through the warranties outlined in the *ACH Rules*, the ODFI has the greatest liability of all the participants in the ACH Network. The contractual relationship between the Originator and the ODFI outlines the rights and responsibilities

of the two parties with respect to the ACH transactions being originated and provides the ODFI with a mechanism to pass some appropriate liabilities to the Originator (company).

An example of this relates to authorizations. The ODFI warrants to all the other Network participants that transactions are properly authorized; and yet, the Originator obtains and maintains this authorization. Hence, the agreement between the Originator and ODFI will undoubtedly address the Originator's responsibilities regarding authorizations.

The **ACH Operator** is the central clearing facility for ACH transactions. The ACH Operator is responsible for accepting files of ACH entries from ODFIs, which are then sorted, batched and forwarded to the Receiver's financial institution. The ACH Operator also performs some editing functions, ensuring that mandatory information required in ACH records is included. There are currently two ACH Operators, the Federal Reserve Bank and EPN (Electronic Payments Network).

The **Receiving Depository Financial Institution (RDFI)** is a financial institution with which the Receiver has an account relationship. Credit or debit entries sent to a Receiver's account will be received by the RDFI from the ACH Operator and then posted to the Receiver's account.

The RDFI's primary responsibilities are to:

1. Post ACH entries to the Receiver's account.
2. Make funds available to the Receiver for credit entries or debit the Receiver's account on the Settlement Date.
3. Provide information regarding each ACH transaction to the Receiver on their statement.
4. Return ACH entries, within the specified timeframes, when the transactions cannot be posted.





There are two other Network participants that may be involved in the flow of transactions, **Third-Party Service Providers** and **Third-Party Senders**.

A **Third-Party Service Provider** is a party which performs an ACH processing function on behalf of the Originator, ODFI or RDFI. A payroll processor is a common example of a Third-Party Service Provider used by Originators. A subset of Third-Party Service Providers sending or receiving ACH files on behalf of a financial institution are known as **Third-Party Sending Points** and **Third-Party Receiving Points**, respectively. These entities can be correspondent banks, corporate credit unions or processors.

A **Third-Party Sender (TPS)** is an entity that has a contractual relationship with an ODFI to transmit debits or credits to the

account of a Receiver on behalf of the Originator. A Third-Party Service Provider is more specifically a Third-Party Sender when there is a contractual relationship between the Originator and the Third-Party, and there is NOT an agreement between the Originator and the ODFI.

Again, referencing the payroll processor example, if the Originator has an agreement with an ODFI for ACH origination and they use a payroll processor to create the ACH file on their behalf, the payroll processor is a Third-Party Service Provider. If the Originator has a contractual relationship with the payroll processor and the payroll processor sends the ACH file to the payroll processor's financial institution for introduction into the ACH Network, the payroll processor is considered a Third-Party Sender.

HOW DOES THE ACH NETWORK FUNCTION?

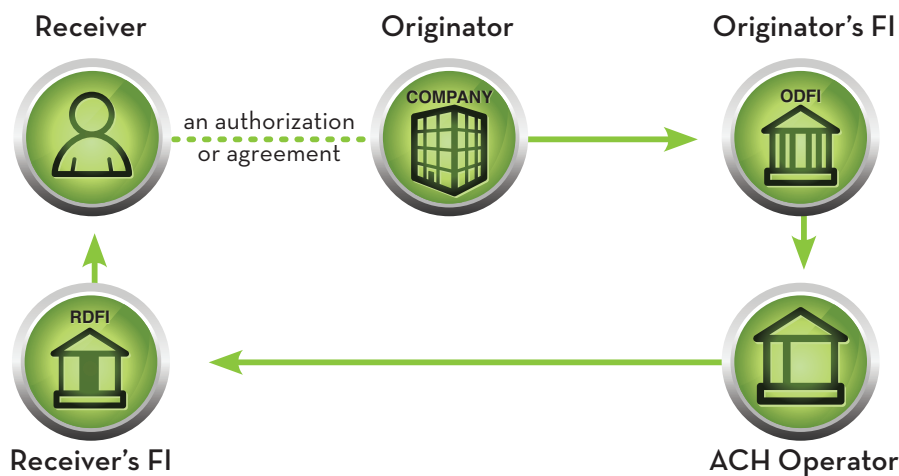
The Originator obtains authorization to initiate a transaction to the Receiver's account or provides notice to the Receiver that a transaction will be initiated to the Receiver's account.

The Originator initiates a file of ACH transactions and presents the file to its ODFI.

The ODFI collects ACH files from Originators with which it has contractual relationships, verifies the validity of these files and at specified times, transmits these files to the ACH Operator. The ODFI may consolidate these individual files as batches into a larger file that is then transmitted to the ACH Operator. The ODFI may retain entries within these files that are intended for account holders at its institution. These entries are known as on-us entries.

The ACH Operator receives ACH files from the ODFI, edits the files to make sure they are formatted properly and distributes files of entries to the RDFI.

The RDFI receives files of entries from the ACH Operator for its account holders. Entries are posted based upon the Settlement Date and account number. Periodic statements are provided to the Receiver with descriptive information about the ACH transaction, including the date of the transaction, dollar amount, Originator name and transaction description (e.g., payroll, water bill, Internet purchase).





HOW ARE ACH FUNDS SETTLED?

Settlement is the actual transfer of funds between financial institutions to complete the payment instructions of an ACH entry. ACH settlement can only occur on banking days. The Federal Reserve Bank provides settlement services for ACH entries, for both the Federal Reserve ACH Operator and any private sector ACH Operator (currently only EPN). The Federal Reserve Bank calculates the net debit and credit positions of financial institutions and applies those debits or credits to the account of the financial institution or to the account of its correspondent financial institution.

The timing of settlement is based upon the Effective Entry Date indicated by the Originator on the ACH file and the time of its delivery to the ACH Operator. The Effective Entry Date is the date the Originator intends for the entries to post to the accounts of the Receivers (employees or customers).

When the ACH Operator processes an ACH file, the Effective Entry Date is read and a Settlement Date is assigned. Entries are settled by the ACH Operator on the Settlement Date.

In most cases, the Settlement Date is the same as the Effective Entry Date, but it is possible that the Settlement Date could be after the Effective Entry Date. For example, if the ACH Operator cannot settle on the Effective Entry Date due to untimely file delivery, a stale date, weekend or holiday, the ACH Operator will apply a Settlement Date of the next business day.

ACH debits may be delivered to the ACH Operator no earlier than one banking day prior to the Settlement Date. ACH credits may be delivered no earlier than two banking days prior to the Settlement Date.



Operations and compliance are two key aspects in the management of the ACH Network. ACH Operators facilitate the operations for transaction processing, while compliance is the primary focus of financial institutions, Regional Payments Associations (RPAs) and NACHA—The Electronic Payments Association™.

NACHA is a not-for-profit association that represents financial institutions through direct memberships and a network of RPAs. NACHA develops operating rules and business practices for the ACH Network and for electronic payments in the areas of Internet commerce, electronic bill and invoice presentment and payment (EBPP, EIPP), electronic check conversions (e-checks), financial electronic data interchange (FEDI), international payments and electronic benefits services (EBS).

RPAs provide access to the *ACH Rules* and guidelines for the efficient operation of the ACH Network as well as provide education to their members. RPA members include financial institutions, companies and other interested parties. With the contributions of their members, they help create the *ACH Rules*.

ACH RULES AND REGULATIONS

There are many rules and regulations governing the transmission of ACH entries. Details on the rules and regulations having the most impact on the financial institution follow:

- *ACH Rules*
- Office of Foreign Asset Control (OFAC)
- Regulation E and Electronic Fund Transfer Act (EFTA)
- State law
- Title 31 Code of Federal Regulation Part 210 (31 CFR Part 210)
- Uniform Commercial Code Article 4A (UCC 4A)
- USA PATRIOT Act

ACH Rules

The *ACH Rules* serve as the primary source for rules and regulations for the Commercial ACH Network and are contract law that is made binding by agreements. Commercial ACH entries are originated by the private sector, which includes individuals, companies and state and local governments. The *ACH Rules*

define the obligations and liabilities of each financial institution, including a provision to perform an annual audit, and provide a mechanism for a receiving institution to return an entry to the sending institution. The *ACH Rules* help reduce risk in the Network and protect financial institutions from potential loss.

Office of Foreign Assets Control (OFAC)

The U.S. Department of the Treasury, Office of Foreign Assets Control, administers economic sanctions and embargo programs that require assets and transactions involving interests of targeted countries, targeted country nationals and other specifically identified companies and individuals to be frozen. OFAC maintains a list of Specially Designated Nationals and Blocked Persons (SDN List) to assist financial institutions in identifying blocked parties.

All U.S. participants in the ACH Network need to be aware that they may be held accountable for sanction violations and must understand their compliance obligations. As an RDFI, the financial institution should have a process in place to determine whether any of its account holders are identified as a blocked party on a current SDN List. Financial institutions are strongly encouraged to obtain a current SDN List and other compliance information directly from OFAC.

To obtain a copy of the *ACH Rules*, contact your Regional Payments Association.



Visit www.treas.gov/ofac or call 800.540.OFAC to obtain the most current SDN List or to learn more about the financial institution's responsibilities.





Regulation E and Electronic Fund Transfer Act (EFTA)

Regulation E carries out the purpose of the EFTA, which establishes the basic rights, liabilities and responsibilities of consumers who use electronic fund transfer services. The primary objective of this act and regulation is the protection of individual consumers engaging in electronic fund transfer services. Regulation E also addresses the responsibilities of financial institutions regarding disclosures, stop payments and unauthorized debit transactions to consumer accounts and defines the process for resolving errors.

State Law

Some state laws may impact ACH transactions if the law is more restrictive or provides greater consumer protection than other prevailing rules or regulations. For instance, some states allow companies to mandate employees to be paid by Direct Deposit; however, most state labor codes restrict companies from offering only Direct Deposit. Many states have mandated state taxes paid by businesses and corporations be initiated through the ACH. The state's Attorneys General Office can provide specifics.

Title 31 Code of Federal Regulation Part 210 (31 CFR Part 210)

31 CFR Part 210 provides the regulatory foundation for the use of the ACH Network for federal government agencies. It defines the rights and liabilities of agencies, Federal Reserve Banks, financial institutions and the public in connection with ACH entries. The *Green Book* is the procedures manual for financial institutions processing federal government payments. Among the procedures covered by the *Green Book* are the handling of federal government reclamations and enrollment in federal government benefit payment programs. By accepting a federal government benefit payment, a financial institution agrees to be bound to 31 CFR Part 210, and therefore, must adhere to these procedures.

Uniform Commercial Code Article 4A (UCC 4A)

Uniform Commercial Code (UCC) is a series of state laws that govern commercial transactions. Article 4A of the UCC governs corporate ACH transactions that are referred to as "corporate wholesale credit entries." RDFIs may identify these transactions by Standard Entry Class Codes CCD or CTX. UCC 4A also addresses the 'commercially reasonable security procedures' that must in place for ACH Origination to occur.

USA PATRIOT Act

Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 establishes a wide variety of ways to combat international terrorism. Title III — International Money Laundering Abatement and Anti-Terrorist Financing, which contains provisions relating to money laundering and terrorist access to the financial system in our country is the section of the Act that affects financial institutions with regard to information sharing and customer identification programs (CIPs).

CIPs require financial institutions to complete the following prior to opening a new account:

1. Verify the identity of any person seeking to open an account.
2. Maintain records of the information used to verify identity.
3. Consult government known or suspected terrorist lists to determine whether the customer appears on any such list.

For a copy of *The Green Book*, visit
www.fiscal.treasury.gov.



RULE OF THUMB: When conflicts are found among these various rules and regulations, the most restrictive rule or regulation applies. In other words, the one that benefits or provides the most protection to the consumer would be applied.



Over the years, consumer and corporate customers have become more and more aware of the advantages of the electronic payments network. As a result, customers are more demanding and financially savvy. The ACH Network provides the ability to directly deposit employee payroll, permits automated bill payment services, allows for purchases online and can be used by companies to perform cash concentration and make corporate-to-corporate payments.

As migration from paper to electronic payment continues, the cost-effective ACH Network will grow and enable innovation that strengthens the industry with creative payment solutions.

TYPES OF ACH TRANSACTIONS

In general, there are two types of ACH transactions sent through the ACH Network:

- **Commercial**—Entries originated by the private sector, including state and local government entities.
- **Government**—Entries originated by federal government agencies (i.e., Social Security Administration, Veteran's Affairs, Civil Service, etc.).

Commercial ACH entries can further be classified as follows:

- **Direct Deposit via ACH**—Credit entries deposited into a consumer's account. Direct Deposit includes payments such as payroll, travel reimbursements, government benefits, tax and other refunds, and annuities and interest payments. The deposits arrive and are made available more quickly than paper checks, and can be automatically divided among different accounts based on the Receiver's direction.
- **Direct Payment via ACH**—Credit or debit entries sent or received by individuals or organizations for making a payment. Basically, any ACH payment that is not a Direct Deposit is known as Direct Payment. Direct Payment includes recurring and single-entry payments such as prearranged ACH payments, Internet-initiated ACH transactions and check conversion into the ACH Network. Direct Payment saves time by eliminating check writing, and since payments are automated, the potential for missing or forgetting payments is reduced.

Increasingly, companies are realizing the benefits of Direct Payment for business-to-business payments. These payments reduce check preparation and distribution expenses, eliminate postage costs, improve cash flow and cash forecasting, can improve payment discounts and simplify account reconciliation. Additionally, payments can accommodate payment-related information in addenda records in standard electronic data interchange (EDI) formats or in NACHA-endorsed banking conventions.

The ACH Network can also be used by consumers and businesses to exchange funds and payment-related information internationally. In the international payment environment, a new participant, the Gateway, acts as the contact point for a financial institution. The Gateway assumes responsibility for foreign exchange conversion and settlement, format mapping and translation of data.

The various ACH applications are discussed in greater detail throughout this *Guide*. For a complete listing of ACH transaction types and their uses, see the *Operating Guidelines of the ACH Rules*.





TRANSACTION CODES

The ACH Network supports a number of different credit and debit applications. A Transaction Code identifies an entry as a debit or credit, and indicates the type of account to which the transaction is intended, i.e. checking, savings, financial institution general ledger or loan account. Only credit entries can be transmitted to loan accounts. Commonly used Transaction Codes are listed:

Demand Credit Records

- 21 Automated Return or NOC for a Demand Credit
- 22 Demand Credit
- 23 Prenote for a Demand Credit
- 24 Zero Dollar Entries w/Remittance Data (for CCD and CTX Entries Only)

Demand Debit Records

- 26 Automated Return or NOC for a Demand Debit
- 27 Demand Debit
- 28 Prenote for Demand Debit
- 29 Zero Dollar Entries w/Remittance Data (for CCD and CTX Entries Only)

Savings Account Credit Records

- 31 Automated Return or NOC for a Savings Credit
- 32 Savings Credit
- 33 Prenote for a Savings Credit
- 34 Zero Dollar Entries w/Remittance Data (for CCD and CTX Entries Only)

Savings Account Debit Records

- 36 Automated Return or NOC for a Savings Debit
- 37 Savings Debit
- 38 Prenote for a Savings Debit
- 39 Zero Dollar Entries w/Remittance Data (for CCD and CTX Entries Only)

Financial Institution General Ledger (GL) Credit Records

- 41 Automated Return or NOC
- 42 GL Credit
- 43 Prenotification of GL Credit
- 44 Zero Dollar Entries w/Remittance Data (for CCD and CTX Entries Only)

Financial Institution General Ledger (GL) Debit Record

- 46 Automated Return or NOC
- 47 GL Debit
- 48 Prenotification of GL Debit
- 49 Zero Dollar Entries w/Remittance Data (For CCD and CTX Entries Only)

Loan Account Credit Records

- 51 Automated Return or NOC
- 52 Loan Account Deposit
- 53 Prenotification of Loan Account
- 54 Zero Dollar Entries w/Remittance Data (For CCD and CTX Entries Only)

Loan Account Debit Records

- 55 Loan Account Debit (Reversal Only)
- 56 Automated Return or NOC





STANDARD ENTRY CLASS (SEC) CODES

Each application has a unique Standard Entry Class (SEC) code which identifies:

- The nature of the transaction as consumer or corporate/business, as well as whether the transaction is single-entry or recurring.
- The *ACH Rules* and other regulations governing the transaction, including the method for obtaining authorization or providing notice.
- The specific record format that is used to carry the payment and payment-related information relevant to the entry.

It is important to know the SEC code of the ACH entry as it will define posting and return procedures. This is of utmost importance to the financial institution as proper handling of entries will mitigate any potential losses associated with human error. Commonly used SEC codes are listed below with their use.

SEC CODE	SEC CODE DESCRIPTION	APPLICATION USE
ARC	Accounts Receivable Entry	The Accounts Receivable (ARC) Entry provides billers the opportunity to initiate single-entry ACH debits to customer accounts by converting checks at the point of receipt through the U.S. mail, at a drop box location or in-person for payment of a bill at a manned location. The biller is required to provide the customer with notice prior to the acceptance of the check that states the receipt of the customer's check will be deemed as the authorization for an ARC debit entry to the customer's account. The provision of the notice and the receipt of the check together constitute authorization for the ARC entry. The customer's check is solely be used as a source document to obtain the routing number, account number and check serial number.
BOC	Back Office Conversion	Back Office Conversion (BOC) allows retailers/billers, and ODFIs acting as Originators, to electronically convert checks received at the point-of-purchase as well as at a manned bill payment location into a single-entry ACH debit. The authorization to convert the check will be obtained through a notice at the checkout or manned bill payment location (e.g., loan payment at financial institution's teller window) and the receipt of the Receiver's check. The decision to process the check item as an ACH debit will be made in the "back office" instead of at the point-of-purchase. The customer's check will solely be used as a source document to obtain the routing number, account number and check serial number.
CCD	Corporate Credit or Debit	The Corporate Credit or Debit (CCD) application provides a way for companies to receive cash rapidly, manage funds and control cash disbursements. Companies that operate several branches or sales outlets may consolidate funds quickly and eliminate the difficulties associated with transferring funds to a central corporate account. This application enhances the ability to predict funds availability and improve a company's total cash management capability. The CCD application can also be used to transfer funds among corporate entities in payment of goods or services, and can support a limited amount of payment-related data (e.g., invoice number, discounts taken, purchase order number, etc.) with the funds transfer.
CIE	Customer-Initiated Entry	A credit entry initiated by consumers through a bill payment service provider to pay bills, including bill payment services submitted through a telephone, ATM or online.
CTX	Corporate Trade Exchange	The Corporate Trade Exchange (CTX) application provides the ability to collect and disburse funds and information between companies. Generally it is used by businesses paying one another for goods or services. These payments replace checks with an electronic process of debiting and crediting invoices between the financial institutions of participating companies.





SEC CODE	SEC CODE DESCRIPTION	APPLICATION USE
IAT	International ACH Transaction	An IAT entry is a credit or debit ACH entry that is part of a payment transaction involving a financial agency's office (i.e., depository financial institution or business issuing money orders) that is not located in the territorial jurisdiction of the United States. IAT entries can be made to or from a corporate or consumer account and must be accompanied by seven (7) mandatory addenda records identifying the name and physical address of the Originator, name and physical address of the Receiver, Receiver's account number, Receiver's bank identity and reason for the payment.
POP	Point-of-Purchase Entry	The Point-of-Purchase (POP) application provides businesses the opportunity to create a debit entry to a Receiver's account for a purchase made in-person at the point-of-sale or a manned bill payment location. After providing the proper notice, the Originator (merchant/retailer) accepts a source document, a paper check/sharedraft, from the Receiver, which is then inserted into a check-reading device to capture the account information (routing number, account number and check serial number) from the MICR line of the check. The dollar amount of the transaction is manually key-entered by the sales clerk. The check/sharedraft is then voided and returned to the Receiver along with an authorization form. The Receiver then authorizes the Originator to convert it into a one-time electronic debit to the Receiver's account.
POS	Point-of-Sale	Point-of-Sale Entries (POS) are ACH debit entries typically initiated by the use of a merchant-issued plastic card to pay an obligation at the point-of-sale. Much like a financial institution issued debit card, the merchant-issued debit card is swiped at the point-of-sale and approved for use; however, the authorization only verifies the card is open, active and within the card's limits—it does not verify the Receiver's account balance or debit the account at the time of the purchase. Settlement of the transaction moves from the card network to the ACH Network through the creation of a POS entry by the card issuer to debit the Receiver's account.
PPD	Prearranged Payment and Deposit	Prearranged Payments and Deposits (PPDs) can be either credit or debit entries and represent either single or recurring payments. PPD transactions are more widely known as Direct Deposit and Direct Payment. The Direct Deposit application provides the ability to disburse funds to consumer accounts. The Direct Payment application provides the ability to collect funds from consumer accounts. PPD can also be used for Return Fee Entries. If a company is allowed by law to collect a fee for a debit entry (ACH or check) that is returned as NSF or UCF, it would use the PPD Standard Entry Class code to do so as long as proper notice is provided.
RCK	Re-presented Check Entry	The Re-presented Check (RCK) Entry provides businesses the ability to collect funds from paper checks that have been processed through the check collection system and returned NSF or UCF. A consumer's paper check that has been returned insufficient or uncollected funds may be submitted as an ACH debit entry through the ACH Network, as long as the proper notice is provided.
TEL	Telephone-Initiated Entry	The Telephone-Initiated (TEL) Entry provides businesses the opportunity to initiate ACH debits to consumer accounts for the purchase of goods and services pursuant to an oral authorization obtained over the telephone. TEL entries can be either set up for one specific payment (Single-Entry) or to occur at regular intervals (Recurring). A TEL entry may be transmitted only in circumstances in which (1) there is an existing relationship between the Originator and the consumer, or (2) there is not an existing relationship between the Originator and the consumer, but the consumer has initiated the telephone call to the Originator.
WEB	Internet-Initiated/Mobile Entry	The Internet-Initiated/Mobile (WEB) Entry provides companies the opportunity to initiate a debit entry to consumer accounts for the purchase of goods and services pursuant to authorizations obtained over the Internet or a Wireless Network. WEB entries can either be set up for one specific payment (Single-Entry) or for a transfer that has been set up to occur at regular intervals (Recurring). The Receiver inputs banking information into the Originator's Web site and authorizes the Originator to initiate an ACH debit entry. The Originator is required to obtain assent to the transaction and to authenticate the consumer in order to have a valid authorization. A WEB entry may also be a credit that is initiated on behalf of a person to pay another person (i.e. person-to-person payment or P2P). The authorization may be communicated via the Internet or Wireless Network.
XCK	Destroyed Check Entry	Destroyed Check Entries (XCK) are debit entries originated by an ODFI for collection of certain checks contained in a lost or destroyed cash letter shipment or that cannot be processed through image exchange.





AUTHORIZATION

Originators must obtain authorization from or provide notification to a Receiver prior to initiating ACH transactions. Authorization requirements differ among the types of ACH transactions, also known as SEC codes. The Originator must keep copies of authorizations for two years from the termination or revocation of the authorization. For example, the Originator of a single-entry TEL must keep the original or copy of the oral authorization for two years from the date of the authorization. The table below identifies the authorization requirements of the more commonly initiated SEC codes.

Authorizations must be readily identifiable as an ACH credit or debit authorization and must contain terms that are clear and readily understandable. For recurring payments only, revocation language must also be included.

Authorizations may limit an Originator to debit or credit entries and may specify a fixed or variable amount. ACH authorizations should include language requiring consumers to acknowledge that ACH entries must comply with provisions of the laws of the United States.

SEC CODE	ENTRY TYPE	AUTHORIZATION REQUIREMENT
Accounts Receivable Entry (ARC) (Corporate to Consumer/Corporate to Corporate)	Debits	Notification is required prior to acceptance of the check.
Back Office Conversion (BOC) (Corporate to Consumer/Corporate to Corporate)	Debits	Notification is required prior to acceptance of the check.
Corporate Credit or Debit (CCD) (Corporate to Corporate)	Debits/ Credits	Agreement required for transfers between companies; written authorization implied.
Customer-Initiated Entry (CIE) (Consumer to Corporate)	Credits	Presumed agreement between consumer and company or paying agent.
Corporate Trade Exchange (CTX) (Corporate to Corporate)	Debits/ Credits	Agreement required for transfers between companies; written authorization implied.
International ACH Transaction (IAT) (Corporate to Corporate/Corporate to Consumer/ Consumer to Consumer)	Debits/ Credits	Agreement required for transfers between companies; credit entries to consumer accounts require authorization be provided orally or by non-written means; debit entries to consumer accounts require a written, signed or Similarly Authenticated* authorization.
Point-of-Purchase Entry (POP) (Corporate to Consumer/Corporate to Corporate)	Debits	Notification prior to acceptance of the check and written authorization required.
Prearranged Payment & Deposit (PPD) (Corporate to Consumer)	Credits	Authorization required. Oral or non-written means (i.e., voided check) accepted.
Prearranged Payment & Deposit (PPD) (Corporate to Consumer)	Debits	Authorization required. Written, signed or Similarly Authenticated.* Authorization for Return Fee Entries may be obtained by providing notice to the consumer when the original debit is presented for payment.
Re-presented Check Entry (RCK) (Corporate to Consumer)	Debits	Notification is required prior to acceptance of the check.
Telephone-Initiated Entry (TEL) (Corporate to Consumer)	Debits	For Single Entry, recorded oral authorization or written notice provided to the consumer confirming the oral authorization*. For Recurring, a copy of the authorization must be provided to the consumer.
Internet-Initiated/Mobile Entry (WEB) (Corporate to Consumer)	Debits	Similarly Authenticated authorization required due to the nature of the Internet.*
Internet-Initiated/Mobile Entry (WEB) Effective 3/21/2014 (Consumer to Consumer)	Credits	Similarly Authenticated authorization required due to the nature of the Internet.*
Destroyed Check Entry (XCK)	Debits	No authorization required.

* Revised Regulation E (2001) and the Electronic Signatures in Global and National Commerce Act (E-Sign Act) qualify electronic signatures as valid for consumer debit authorizations. This refers to authentication of the authorizing party by digital signature such as a unique PIN number.





To ensure compliance, the RDFI should familiarize itself with Article Three of the *ACH Rules* as it defines the financial institution's responsibilities. RDFIs will also want to become acquainted with the reporting and disclosure requirements, ACH audit and data security requirements.

REPORTING AND DISCLOSURE REQUIREMENTS

RDFIs are subject to certain reporting and disclosure requirements under the *ACH Rules* and Regulation E. Reporting requirements dealing with the Receiver's account statement are addressed in the *ACH Rules* as are disclosure requirements for "wholesale credits" covered by the Uniform Commercial Code Article 4A (UCC 4A). Regulation E addresses reporting and disclosure requirements regarding electronic consumer transactions. The following is a general overview of these requirements as they relate to the receipt of ACH transactions. Regulation E provides models of the required consumer disclosures.

The ACH Rules Disclosure Requirement

Periodic Statement

Minimum description standards for preparation of the Receiver's account statement may be referenced in the *ACH Rules*. The *ACH Rules* reporting requirements are similar to Regulation E statement reporting standards. Requirements under the *ACH Rules* apply whether or not a financial institution is exempt from the requirements under Regulation E. The *ACH Rules* require all RDFIs to make disclosures in accordance with Section 205.9(b) of Regulation E. Regulation E addresses only consumer accounts while the *ACH Rules* additionally address reporting to commercial accounts. However, the requirements under the *ACH Rules* do not apply to passbook savings accounts.

Notice of Receipt Disclosure

"Under the Operating Rules of the National Automated Clearing House Association, which are applicable to ACH transactions involving your account, [we] are not required to give next day notice to [you] of receipt of an ACH item and [we] will not do so. However, [we] will continue to notify you of the receipt of payments in the periodic statements we provide to you."

UCC 4A Disclosure Requirements

Funds Availability

The financial institution may make payment provisional on "wholesale credits" until receipt of final settlement from the Federal Reserve Bank. Wholesale credits (i.e., CCD and CTX entries) generally represent larger dollar values and increased risk. If the RDFI chooses to make payment provisional until final settlement, then notification of the provisional nature of the payment must be provided by means of a "Provisional Payment Disclosure." If the financial institution does not receive final settlement for an entry posted to the Receiver's account, then it is entitled to a refund from the Receiver.

Provisional Payment Disclosure

"Credit given by [us] to [you] with respect to an Automated Clearing House credit entry is provisional until [we] receive final settlement for such entry through a Federal Reserve Bank. If [we] do not receive such final settlement, [you] are hereby notified and agree that [we] are entitled to a refund of the amount credited to [you] in connection with such entry, and party making payment to [you] via such entry (i.e., the Originator of the entry) shall not be deemed to have paid [you] the amount of such entry."

Notice Requirement

It is the RDFI's responsibility to notify Receivers of wholesale credits before midnight of its next funds transfer business day following the Settlement Date of the entry. If the financial institution fails to give such notice, it is obligated to compensate the Receiver for any interest losses incurred as a result of the failure. RDFIs are excused from providing next day notice as long as a disclosure is provided to customers/members that notification will not be given.



Choice of Law

UCC 4A was developed at a national level, adopted state by state, and uniquely incorporated into the existing state commercial code. Therefore, there may be some differences by state in legal interpretation. In the case of disputes between companies or financial institutions residing in different states, NACHA has chosen the New York state code as the generic UCC 4A code for the purpose of legal determinations.

Regulation E Disclosure Requirements

Initial Disclosure

Under Regulation E, an initial disclosure must be delivered to the consumer before receipt of the first ACH transaction. Financial institutions commonly provide the disclosure at the time the consumer opens an account. As of January 1, 2007, the disclosure must also indicate that electronic check conversions (i.e., checks converted to ARC, POP and BOC) are a type of transaction covered by Regulation E.

Periodic Disclosure (Account Statement)

The periodic disclosure is used to notify the consumer of account transactions during the reporting period and to provide financial institution contact information. A disclosure must be made for each monthly or shorter statement cycle in which an electronic transaction has occurred. If none have occurred, the disclosure must be provided at least quarterly. Therefore, attention should be given to accounts with statements that cycle less frequently than monthly. For example, savings accounts may cycle quarterly. If these accounts receive electronic transactions, procedures should be arranged to insure proper reporting. At least once a year, a financial institution must provide a notice regarding error resolution procedures as prescribed by Regulation E. By including the disclosure as part of the periodic statement, a financial institution may eliminate the need for a special mailing.

There are special provisions under Regulation E for passbook savings accounts that allow only ACH credit transfers. Transaction information may be updated upon presentment of the passbook.

Choice of Law Disclosure

"We may accept on your behalf payments to your account which have been transmitted through one or more Automated Clearing Houses (ACH) and which are not subject to the Electronic Fund Transfer Act and your rights and obligations with respect to such payments shall be construed in accordance with and governed by the laws of the state of New York, unless it has been otherwise specified in a separate agreement that the law of some other state shall govern."





RISK MANAGEMENT AND ASSESSMENT

Risk management is every financial institution's responsibility. There are three key types of risk affecting ACH payment processing that RDFIs should be aware of:

- **Credit Risk**—the risk that a party to a transaction cannot provide funds for settlement
- **Operational Risk**—the risk of loss due to unintentional error
- **Fraud Risk**—the risk that a transaction may be initiated or altered in an intentional effort to misdirect or misappropriate funds

The *ACH Rules* require all financial institutions to perform a risk assessment of their ACH activities and to implement risk management programs based on the assessment, in accordance with the requirements of their regulator(s).

ACH Credit Risk

While credit risk is generally associated with ACH origination activities, RDFIs are also exposed to credit risk when they:

- Post a credit entry prior to the Settlement Date, or
- Do not return a debit entry in a timely manner.

Controlling Credit Risk

Credit risk is generally controlled by developing and implementing processing procedures, understanding compliance obligations and ensuring ACH operations staff are properly trained.

ACH Operational Risk

Operational risk represents the amount of loss related to unintentional errors, which may occur due to a hardware/software failure or clerical errors, such as untimely returns or the incorrect use of return reason codes. Any disruption in ACH processing can jeopardize the accurate and timely processing of ACH entries.

Controlling ACH Operational Risk

The evaluation of ACH operational risk and the determination of procedures to control those risks should include participation of auditors and outside professionals to ensure objectivity. Operational risk may be managed through automated security methods, as well as controlled operational procedures, which include cross-training of staff, dual controls and a contingency plan.

ACH Fraud Risk

Fraud risk represents risk that a transaction may be initiated or altered in an intentional effort to misdirect or misappropriate funds. Risks related to fraud are affected by internal as well as

external factors. Fraudulent activities may be the work of dishonest employees, third-party processing personnel, originating company personnel or other outside parties.

Controlling ACH Fraud Risk

While controls related to ACH operational and credit risk may also be effective in diverting fraud, additional areas may include specific personnel practices and security.

Personnel Practices

The following are suggestions regarding practices and procedures that contribute to fraud risk management:

- Limit use of temporary employees
- Screen potential full-time employees
- Segregate duties
- Change or rotate work assignments
- Mandate physical security (i.e., individual passwords, physical locks, etc.)

Security Practices

It is up to the financial institution to ensure that its ACH operations are secure. Sensitive operation sites, such as the area that houses the computer and communications equipment, should be kept secure. All portable data, such as CDs, USBs, reports and physical file folders, should be kept in secure areas, as well as protected from hazards such as flood or fire. Computer terminals should automatically logoff after a set period of time.

ACH processing software should be safeguarded with controls in place to ensure that only authorized changes can be undertaken. Communications software should provide security features, such as encryption or authentication to secure data during the process of transmission. In general, ACH processing security should conform to the organization's data processing security policy.





ACH AUDIT

All ACH participating financial institutions and Third-Party Service Providers must conduct an audit of *ACH Rules* compliance annually, by December 31, in accordance with Appendix Eight of the *ACH Rules*. This includes both ODFIs and RDFIs and their Third-Party Service Providers (Third-Party Sender, Sending/Receiving Point). The audit may be performed externally or internally under the direction of an audit committee, audit manager or senior level officer of the participating Depository Financial Institution or the Third-Party Service Provider.

Refer to Appendix 8 of the *ACH Rules* for detailed information on the ACH Audit.

DATA SECURITY REQUIREMENTS

The *ACH Rules* establish data security requirements for all ACH transactions, regardless of Standard Entry Class (SEC) code, transmitted or exchanged via an Unsecured Electronic Network (UEN). An example of a UEN is the Internet. Any banking information, which includes but is not limited to, an entry, entry data, routing number, account number, PIN or other identification symbol, that is transmitted or exchanged via a UEN must be either (1) encrypted, at a minimum to 128-bit RC4 encryption technology, or (2) transmitted via a secure session that provides a level of security that, at a minimum, is equivalent to 128-bit RC4 technology.

RDFIs must also have policies, procedures and systems in place designed to protect banking information from being breached. Such policies, procedures and systems will need to ensure banking information is secured throughout the ACH payment cycle, including the initiation, processing and storage of entries until destruction.

WHAT IF THE RDFI IS NOT IN COMPLIANCE?

All participating financial institutions, by act of receiving or sending ACH entries, agree to comply with the applicable *ACH Rules* and agree that those rules shall govern the sending and receiving institutions and other parties involved. A formal process has been established to address situations of non-compliance and includes *ACH Rules* enforcement, compensation and arbitration.

The *ACH Rules* enforcement and fines process establishes procedures for the documentation and investigation of alleged violations of the *ACH Rules*. The objective of the *ACH Rules* enforcement process is to maintain the continued quality of ACH services and ensure compliance with the provisions of the *ACH Rules*. A participating financial institution or ACH Operator that is a party to the transaction in question may complete a Report of Possible *ACH Rules* Violation for any alleged violation. A party to the transaction has 90 days from the occurrence of the *ACH*

Rules violation(s) being asserted to submit a report. The Report of Possible *ACH Rules* Violation must be signed by an officer and submitted with copies of supporting documentation necessary to support the claim of the *ACH Rules* violation to NACHA for investigation. If, based on the information provided, it appears that a violation may have occurred, a Notice of Possible *ACH Rules* Violation will be sent to the participant against which the report was filed. This participant will be asked to respond by (1) acknowledging and correcting the problem, or (2) refuting the allegation. A participant that fails to respond appropriately may be assessed a fine by the *ACH Rules* Enforcement Panel ("Panel"). In 2008, NACHA and the Panel were given greater ability to enforce the *ACH Rules* and allowed to suspend Originators when fines do not resolve the issues causing the violations.





ACH Rules violations are categorized based on the severity of the issue and fines are imposed accordingly:

CLASS 1 RULES VIOLATION – up to \$5,000 per violation

CLASS 2 RULES VIOLATION – up to \$100,000 per violation per month

CLASS 3 RULES VIOLATION – up to \$500,000 per violation per month

Your Regional Payments Association is always available to assist you in handling issues of non-compliance.

The compensation process is used to ensure that one financial institution is not unjustly enriched or injured as a result of an error made by another financial institution. The rules of compensation provide a mechanism for adjusting the value of funds. A claim for compensation may be filed if the loss incurred, with respect to a particular entry, is at least \$250. Most common uses for compensation are failure to transmit an ACH payment, payment transmitted in error or incorrect Receiver.

The arbitration procedures within the *ACH Rules* include three dispute levels, which are determined according to the dollar amount of the damages and the complexity of the issue. Disputes under Procedure A and Procedure B may be submitted by only one party; however, both parties must agree to arbitration under the rules for Procedure C.

- Arbitration Procedure A addresses damages of at least \$250 but less than \$10,000,
- Arbitration Procedure B addresses damages of at least \$10,000 but less than \$50,000 and
- Arbitration Procedure C addresses damages of \$50,000 or more.

Claimed damages are not limited to the dollar amount of the entry or entries involved and may also include the cost of handling the problems involved with the entry. The timeframe for submitting an arbitration claim is two years from the date of the alleged violation.



RECEIVING ACH ACTIVITY

By prior arrangement with an RDFI, the ACH Operator sends items by electronic means to the RDFI, or to a Third-Party Processor designated by the RDFI. These items are made available on the ACH Operator's system for the RDFI or its agent to retrieve and process. An RDFI, or its Third-Party Processor, must manage its electronic connection so as to permit it to receive items in a timely manner throughout the day.

Each processing cycle offered by the ACH Operator has deadlines by which an ODFI must deposit ACH files. Files are to be delivered no later than three hours following the time of each deadline. Below are the Federal Reserve's "mixed deposit" deadlines for each cycle.

Contact the ACH Operator for a complete copy of the ACH Deposit Schedule. An RDFI should evaluate the frequency and timing of its scheduled pickups of incoming ACH files to accommodate these processing cycles. If an RDFI receives files from a Third-Party Processor, similar action may be required on the part of the processor to ensure compliance with ACH availability requirements. The RDFI is responsible for obtaining its ACH files in a timely manner to insure proper funds availability. Use of a Third-Party Processor does not alter the requirements for timely availability of funds.

Current Federal Reserve ACH Deposit Schedule

DEPOSIT CYCLE	DEPOSIT DEADLINE	AVAILABILITY
Immediate Settlement/ Returns	1:00 p.m. CT/2:00 p.m. ET (all items) ¹	Return entries settle immediately; next day and two days items available no later than 5:00 p.m.
End of Day	1:15 a.m. CT/2:15 a.m. ET (all items) ²	Same day and next day items available for a.m. delivery.

¹ Immediate Settlement Deadline — return items delivered prior to this deadline will receive immediate settlement; items deposited by this deadline will be available to the receiving institution in time to meet the NACHA deadline for posting and availability to the recipient account by opening of business the following day.

² Close of Business Settlement Deadline — all items deposited prior to this deadline can settle that morning or the next day if the item is a two-day item.

ACCEPTING ACH TRANSACTIONS

Subject to its right under the *ACH Rules* to return entries and to reject prenotifications, RDFIs must accept ACH transactions (including reversals) received to any transaction account maintained with that institution. With the exception of Destroyed

Check Entries (XCK) and non-transaction accounts, the financial institution may not return an entry solely because it is a credit entry or a debit entry or is a particular type of credit or debit entry.





POSTING ACH TRANSACTIONS

Timing

RDFIs are required to post ACH transactions on the actual Settlement Date, although ACH entries may be received prior to that date. For example, the financial institution may receive federal government transactions, which are allowed earlier processing windows, up to four days before the actual Settlement Date. The *ACH Rules* impose posting limits determined upon whether transactions are debit or credit entries.

Account Identification

The account number is the primary information used to post ACH transactions. Sometimes the name and account number of an ACH transaction do not match an account. For example, the account number may be valid, but the name is not identified in the account title. There are a number of valid reasons why this may occur. In these situations, the financial institution may rely solely on the account number for purposes of posting the ACH payment and will be indemnified from any liability.

Debits must be posted no earlier than the Settlement Date. Credits may be made available no later than the Settlement Date.

FUNDS AVAILABILITY COMPLIANCE

Each RDFI should establish its own policies for funds availability compliance. The financial institution is ultimately liable for losses a Receiver may incur as a result of the untimely availability of ACH transactions. It should be noted that use of a Third-Party Processor does not alter the requirements for timely availability of funds.

The *ACH Rules* require RDFIs to provide opening of business availability to consumers for PPD credits made available to the RDFI from the ACH Operator by 5 p.m. local time on the day prior to settlement. Opening of business is defined as the later of either 9 a.m. local time or the time the teller facilities or ATMs are open for withdrawals. Therefore, if the RDFI's drive-thru operations open at 7 a.m., the funds need to be available for withdrawal by 9 a.m. All other credits must be available on the Settlement Date. Settlement day finality for credits allows RDFIs

to post credit transactions on the Settlement Date without the risk of the entries being pulled back.

The *ACH Rules* provide an RDFI that reasonably suspects a credit entry is unauthorized with an exemption to the availability requirements. If the RDFI has reasonable reason to believe that a credit entry is unauthorized, it does not have to make the funds available for withdrawal on the Settlement Date; however, the RDFI still must meet the availability requirements of Regulation CC. This provides the RDFI with time to investigate, and potentially prevent a money mule from obtaining funds for an account. The RDFI does, however, have to promptly notify the ODFI.

When processing delays occur, the financial institution should take steps to verify whether funds can or should be made available.

Refer to *Article 3* of the *ACH Rules* for detailed information on RDFI responsibilities.





DAILY REPORTS

The Daily Activity Report

The Daily Activity Report is a detailed reporting of ACH transactions. This report serves several purposes:

- Detail for posting ACH transactions
- Information needed to prepare Returns and Notifications of Change
- Information for daily reconciliation
- A retainable source for ACH historical reference

The Daily Activity Report may be generated from ACH Operator software, in-house processing software or provided by a Third-Party Processor, such as a correspondent bank, data processor, corporate credit union, savings and loan processor or service bureau processor.

The format of the Daily Activity Report may be different for each RDFI; however, it should contain information provided from the Company/Batch Header Records and Entry Detail Records of the ACH files. An RDFI should advise its ACH Operator, processor or software provider regarding important information missing from reports.

See an illustration of a Daily Activity Report in the Appendix of this *Guide*, page A1. A list of some key pieces of information found on the report along with descriptions are provided.

Daily Reconciliation

Settlement for ACH files is accomplished by debiting and crediting the appropriate Federal Reserve accounts. If the financial institution does not have an account with the Federal Reserve Bank, then settlement will occur in its correspondent's account. The correspondent will be responsible for passing on settlement to the financial institution.

Settlement transactions are posted as of the effective date of the entries unless the ODFI delivers the transaction file after the processing deadline for that effective date. In that case, the ACH Operator will assign a different Settlement Date. The actual Settlement Date is indicated on the Daily Activity Report by the three-digit Julian date. In most cases, however, the effective date and the Settlement Date will be the same. Stale-dated items are settled on the first available day in the window for that type of an item. Future-dated items (dates beyond the window) will be rejected at the ACH Operator and returned to the ODFI.

Settlement advices are generated and dispatched with ACH output files for each distribution run. Advices reflect items deposited and received by the ACH Operator for that processing day. Correspondent advices are produced by financial institutions that settle on behalf of respondent financial institutions.

Control Reports

Two or more ACH control reports may be used for daily reconciliation of ACH funds. These may include the Daily Activity Report (the listing that provides transaction activity) and Settlement Advice reports from the ACH Operator (control totals for debit and credit dollars posted for the settlement of ACH funds). When settling through a Third-Party Processor or correspondent, an alternative settlement report may be provided, such as a daily account statement or control report, which serves the same function as the Settlement Advice.

Reconciliation is accomplished by comparing the total amounts for entries reported on the Daily Activity Report to total funds settled to the institution's Federal Reserve account (as reported on the Settlement Advice). If the funds are settled through a correspondent account, settlement should also be reconciled between the Settlement Advice and the correspondent account statement. And because ACH processing allows both one and two-day processing windows, reconciliation must take into consideration forward reconciliation of items reported with a future Settlement Date.





The ACH Network has the capability to exchange numerous value and non-value entries, which accomplish various functions. Some of the different types of ACH transactions that offer unique features and require special handling are detailed.

ENTRIES WITH ADDENDA RECORDS

An addenda record is an ACH record type that carries supplemental data needed to completely identify an account holder or provide information to the RDFI or its customer/member concerning a payment. With the increased use of Financial Electronic Data Interchange (FEDI) and Electronic Federal Tax Payments (EFTPS), the financial institution may see increasing numbers of addenda records.

Addenda records are reported on the Daily Activity Report and are typically reported directly following the ACH entry to which the addenda record relates.

The following, in bold text, are examples of ACH entries reported with addenda records: (1) a FEDI addenda record in the American National Standards Institute (ANSI) format, (2) an EFTPS Tax Payment addenda formatted in the TXP Banking Convention and (3) a health care payment addenda formatted in the ANSI format. (Note: The reporting format provided by Third-Party Processors or vendor software programs may differ from the illustration below.)

(1) RFI NUMBER	INDIVIDUAL NAME	ID NUMBER	TRACE NUMBER
9999999	ABC COMPANY	980783548	O10827385912344
RMR*IV*0974*PP*200.00*210.00*10.00\			
(2) RFI NUMBER	INDIVIDUAL NAME	ID NUMBER	TRACE NUMBER
9999999	ZYX COMPANY	980783548	O10827385912344
TXP*734567789*606*000331*T*1000000*P*12000*1*4567*SML2A\			
(3) RFI NUMBER	INDIVIDUAL NAME	ID NUMBER	TRACE NUMBER
9999999	BEST PEDIATRICS	363989757	O10827386014455
TRN*1*12345*1512345678*999999999\			

It is mandatory that the institution properly recognize addenda records and be prepared to pass addenda record information to its customers/members. Reporting requirements differ based on the type of entry. The *ACH Rules* require an RDFI to provide the

addenda information for CCD, CTX, CIE and IAT entries within two banking days of the Settlement Date of the entry if requested by a non-consumer Receiver. RDFIs may charge fees for this special reporting service.

RDFIs have additional reporting requirements for health care payments. An RDFI must provide payment-related information received with a CCD health care payment either automatically or upon the request of the health care provider. The payment-related information will contain the ASC X12 835 TRN (Reassociation Trace Number) data segment, which is shown above, and must be made available within two banking days of the Settlement Date of the entry. An RDFI must also offer an option to the health care provider to receive or access this information via a secure, electronic means that provides a minimum level of security equivalent to 128-bit RC4 encryption technology.



PRENOTIFICATIONS

Prenotifications (prenotes) are non-dollar entries used by Originators to ensure ACH entries contain accurate identification of the receiving financial institution and individual's account. The transaction codes 23, 28, 33 and 38 and zeros appearing in the amount field on the Daily Activity Report identify prenotes or an RDFI may have a separate report for prenotes.

The use of prenotes by the Originator is optional for all commercial ACH applications. The RDFI must honor both corporate and

consumer transactions received without prenotes. Originators that choose to send prenotes are required to do so six banking days before sending the first live dollar entry.

Effective September 19, 2014 Originators may initiate the first live dollar entry as soon as the third banking day following the Settlement Date of the prenote.

Action required upon receipt of a prenote:

1. Accept the prenote if the account information is correct. No additional action is necessary; or
2. Respond to a prenote that contains incorrect information by submitting a Notification of Change. This indicates to the Originator that the entry was posted, but contained some erroneous information; or
3. Return the prenote. This indicates to the Originator that the information on the prenote is incorrect; therefore, the entry could not be posted.

COMMERCIAL RECLAMATION ENTRIES

The *ACH Rules* include provisions for Originators to reclaim commercial (non-federal government) benefit payments such as pensions and annuities that are made after the death or legal incapacity of the Receiver. Originators may make a reclamation request either in writing or by sending an ACH debit entry. Reclamations will require special handling by the institution. The RDFI must honor commercial reclamations to the extent of its liability. The amount of a reclamation entry may be less than the amount of the original benefit payment since the *ACH Rules* allow "partial reclamation" entries.

To determine if a commercial reclamation entry has been received, look for "RECLAIM" in the Company Entry Description Field of the Company/Batch Header Record.

The financial institution's liability for commercial reclamations is the lesser of:

1. the amount of the payments since the death of the Receiver (i.e., the amount the Receiver was not entitled to), or
2. the amount available in the Receiver's account.

Action required for commercial reclamations:

- If funds are available in the Receiver's account, a reclamation entry should be accepted for payment.
- If the account is still open and funds are not available to cover the amount of the entry, the entry may be returned as insufficient funds.

Upon written demand for payment by the originating company, a payment should be issued for the amount requested, or for a lesser amount, as available in the Receiver's account.





FEDERAL GOVERNMENT RECLAMATION ENTRIES

Death Notification Entries (DNEs) are used by federal government agencies (e.g., Social Security Administration, Veteran's Affairs) to provide notification of the death of benefit recipients. The addenda record, which accompanies this non-dollar entry, specifies the recipient's date of death, Social Security number and the amount of the next scheduled benefit payment.

By accepting a recurring federal government benefit payment, the financial institution agrees to the provisions of Title 31 CFR Part 210. This includes the reclamation actions and debiting of its Federal Reserve Bank account for any reclamation for which it is liable. Since a DNE constitutes "notice of death" to the financial institution, it affects its liability for any reclamation of benefits. The institution is liable for ALL benefit payments received after the death of a beneficiary. RDFIs should also be aware that a DNE from one federal government agency constitutes notification by all other agencies. For example, if a deceased beneficiary received recurring benefit payments from both Social Security and the Veteran's Administration (VA), a DNE from Social Security would represent notification by the VA too. In this instance, the financial institution would want to ensure payments from both agencies received after the beneficiary's death are returned promptly.

While the institution is liable for ALL benefit payments received after the death of a beneficiary, it may qualify to limit its liability if it:

1. Had no actual or constructive knowledge of the death at the time any post-death benefit payments were received.
2. Returned all post-death benefit payments received after learning of the death (DNE, Notice of Reclamation, surviving relatives or account holders, etc.).
3. Responded to the Notice of Reclamation by completing the form fully and accurately and returning it to the Government Disbursing Office within 60 days of the date of the reclamation.

Federal government reclamations represent a potential for financial institution loss and require priority over commercial reclamations. Federal government reclamations should be handled by procedures outlined in the *Green Book*, which can be found at www.fiscal.treasury.gov.

Rule of Thumb:
Always return federal government benefit payments made after the death of the beneficiary. Contact your Regional Payments Association or the U.S. Department of the Treasury, Financial Management Service, for assistance, if needed.

ACKNOWLEDGMENT ENTRIES (ACK & ATX)

Originators may request an acknowledgment from the RDFI that a corporate credit entry (CCD or CTX) has been received and the institution attempted to post the payment to the Receiver's account. The Discretionary Data field of the Entry Detail Record will contain an "AK" if an acknowledgment is being requested.

Acknowledgment entries, which are optional, create an opportunity for the RDFI to provide additional services to its

business customers/members that receive corporate credit entries. ACK and ATX entries provide a method for the institution to acknowledge the receipt of CCD or CTX credits, respectively, to the Originator. By sending the acknowledgment, the RDFI is indicating that the payment was received and it will attempt to post the payment to the Receiver's account. Acknowledgment entries must be initiated within two banking days following the Settlement Date of the CCD or CTX entry.





DESTROYED CHECK ENTRIES (XCK)

Destroyed Check Entries are entries originated by an ODFI for collection of certain checks contained in a lost or destroyed cash letter shipment; or checks that cannot be processed through image exchange. The words “NO CHECK” and “CHECK DESTROYED” in the Company Entry Description and Company Name fields, respectively, identify these entries. XCK entries must be accompanied by the serial number of the lost check. This information should appear on the account holder’s periodic statement to help identify the entry.

The financial institution’s acceptance of XCK entries is voluntary and all liability associated with these entries falls upon the ODFI. If the RDFI chooses to accept XCK entries, it may post such transactions with no special handling. It may send a written request for a copy of the items to which the XCK entry relates. This request must be received by the ODFI within six years of the date of the XCK entry, and the ODFI must send a copy of the item to the RDFI within 30 days.

Check your financial institution’s ACH Management Policy to determine whether your financial institution accepts XCK entries or not.

INTERNATIONAL ACH TRANSACTIONS (IAT)

International ACH Transactions are ACH entries that are part of a payment transaction involving a financial agency’s office (i.e., depository financial institution or business issuing money orders) that is not located in the territorial jurisdiction of the United States. IAT entries can be debit or credit entries to corporate and consumer accounts. Each IAT entry must be accompanied by seven mandatory addenda records identifying the name and physical address of the Originator, name and physical address of the Receiver, Receiver’s account number, Receiver’s routing number and reason for the payment. Additionally, up to five optional addenda records may come with an IAT entry that convey remittance data and identify foreign correspondent banks.

RDFIs processing inbound IAT entries must review each IAT entry received along with all parties to that transaction, including the Originator, foreign originating bank, foreign correspondent banks and the Receiver against the most current Specially Designated Nationals and Blocked Persons (SDN) List. Additionally, any remittance information with the transaction must be screened to ensure it is not in violation of OFAC sanctions. OFAC screening must be performed prior to posting an IAT entry and can be done through the use of software tools or a Third-Party Service Provider (i.e., correspondent bank, corporate credit union, or processor). If using a Third-Party Service Provider to do the OFAC review of transactions, be aware the financial institution may not contract away its liability.

Inbound IAT Debit Processing

The procedures described below are recommendations and guidance for Depository Financial Institutions acting as Gateways and RDFIs processing inbound IAT debit entries.

Gateway Responsibilities

1. Review all IAT debit entries against the current SDN List.
2. Populate the OFAC Screening Indicator field with “0” for cleared transactions, and send the transactions to the ACH Operator for distribution to RDFIs.
3. Investigate suspect transactions.
 - If cleared, populate the OFAC Screening Indicator field with “0” and transmit the transactions to the ACH Operator for distribution to RDFIs.
 - If confirmed, cease processing, notify the Foreign Gateway and OFAC, and provide details (names, addresses of all parties, date and amount) of the transaction to the RDFI within five (5) banking days of blocking or rejecting the transaction.

RDFI Responsibilities

Based on these processing guidelines, the institution should never receive an inbound IAT debit with “1” in the OFAC Screening





Indicator field indicating a suspect transaction. However, the RDFI should be aware that this does not relieve the institution of its obligation to screen all IAT debits received and report SDN hits to OFAC.

- Review each incoming IAT debit against the current SDN List. (Note: Use of the OFAC Screening Indicator field is optional; therefore, an RDFI should not assume a transaction is clean because of the presence of a “0.”)
- Post cleared transactions.
- Investigate any suspect IAT debits.
 1. If cleared, post the transaction.
 2. If confirmed, post the debit to the destined account, place the proceeds in an interest-bearing account, notify the Gateway, and contact OFAC directly for further instructions on how to handle.

If an RDFI receives notification from a Gateway that an inbound IAT debit destined for one of its account holders has been rejected due to the presence of a blocked party, it should exercise appropriate due diligence.

Inbound IAT Credit Processing

If the inbound IAT entry is a credit and found to be a true SDN List match, the RDFI must immediately freeze all open accounts for the matched name, ensuring that funds cannot be withdrawn, and notify OFAC.

In July 2012, OFAC provided the following commentary related to the practice of crediting an account with the proceeds of an IAT prior to performing OFAC screening:

“It is OFAC’s position that a financial institution that performs its OFAC screening after having credited a beneficiary’s account increases its OFAC risk substantially.

When a financial institution credits a beneficiary’s account with the proceeds of a transaction that is in violation of OFAC regulations, it has committed a violation by processing the transaction forward. The consequences of the violation can be mitigated if the institution is able to prevent the beneficiary’s access to the funds until the OFAC screening is completed, or is otherwise able to recover the funds prior to their being used by the beneficiary.”

RDFIs must have a written OFAC compliance policy and procedures manual in place. There are many OFAC policy and procedures manuals available on the Internet that can be purchased or downloaded for free.

Effect of Illegality

The *ACH Rules* regarding posting and availability of IAT entries are the same as any other SEC code. The RDFI must not debit the Receiver’s account prior to the Settlement Date, and it must ensure funds are available for withdrawal on the Settlement Date. However, Subsection 1.2.1 excuses the institution from its obligations under the *ACH Rules* to credit or debit an account when such action is in conflict with U.S. Legal Requirements, including OFAC and FinCEN.

Suspect IAT Credit Example: If the investigation of a suspect IAT credit entry is not complete on the Settlement Date, the RDFI is relieved of its obligation to make the funds available for withdrawal. Therefore, if the transaction is cleared on the day following the Settlement Date, it would be acceptable to make the funds available then.

Suspect IAT Debit Example: If the investigation of a suspect IAT debit entry is not complete on the Settlement Date, the RDFI is released of its obligation to post the entry. If the transaction is cleared on the day following the Settlement Date and the account is insufficient, it may return the entry even though it is outside of the established return timeframe of “24-hours.” To ensure the return is not dishonored as untimely, the RDFI will want to notify the Gateway prior to processing the return.

IAT Statement Requirements

The institution is responsible for sending or making available to each of its consumer account holders information concerning each IAT credit and debit entry to their account. If the Transaction Type Code field of an inbound IAT debit entry contains a secondary SEC code of:

- POP, POS, MTE or SHR, the RDFI must also provide the Terminal Location, Terminal City, and Terminal State information found in the addenda record containing remittance information.
- ARC, BOC, POP or RCK, the RDFI must also provide the Check Serial Number found in the addenda record containing remittance information.





If an ACH item does not process in the normal, automated fashion, it is considered an exception. Financial institutions need to pay close attention to timeframes associated with exceptions so they do not suffer an unnecessary loss.

RETURNS

ACH entries can be returned to an Originator for any valid reason just as deposited checks can be returned

for any valid reason. A return entry is used when the RDFI is unable to post an ACH transaction or when an entry is being disputed. The *ACH Rules* allow an RDFI to return any entry for which there is a valid Return Reason Code. This may be due to incorrect information, which prevents the RDFI from identifying the correct account; a change in the account relationship, such as death or closure of an account; insufficient or uncollected funds in the Receiver's account; or an entry the Receiver did not authorize.

You cannot return an entry when your customer/member is not satisfied with or has not received the goods or services to which the ACH entry relates.

In general, returns must be transmitted so that the return entry will be made available to the ODFI no later than the opening of business on the second banking day following the Settlement Date of the original entry. This timeframe is referred to as the "24-hour" deadline. Here's how it works:

THURSDAY	FRIDAY	SATURDAY	SUNDAY	MONDAY
Debit entry received by the RDFI, but cannot be posted due to insufficient funds	Debit entry returned by the RDFI			Debit entry made available to the ODFI at opening of business
Settlement Date	1st banking day following the Settlement Date			2nd banking day following the Settlement Date

In the above example, the RDFI returned the entry on the first banking day following the Settlement Date, or within 24 hours of receipt, in order to meet the required timeframe.

Extended return entries for disputed transactions (i.e., revoked authorization or unauthorized) may be returned up to 60 calendar days from settlement. These entries require a Written Statement of Unauthorized Debit to be completed prior to the entry being returned.

Returned entries may be reinitiated if the entry was returned for insufficient funds or uncollected funds and are limited in number to two and must be initiated within 180 days of the original entry. An entry returned for stop payment, or an authorization issue, may only be reinitiated if the Originator has received appropriate authorization from the Receiver to do so.

When returning an entry, always select the Return Reason Code that most accurately reflects the reason for the return. In doing so, you will effectively communicate to the ODFI and their Originator the appropriate action to take.





Written Statement of Unauthorized Debit

The Receiver must execute a Written Statement of Unauthorized Debit when an ACH entry is claimed as unauthorized, improper, authorization revoked or part of an incomplete transaction. The Receiver must identify the reason that the entry is considered unauthorized, improper, authorization revoked or incomplete based upon the criteria described in the following section of this guide entitled Return Reasons by ACH Application.

The Written Statement of Unauthorized Debit *Rule* reinforces both the Receiver's direct responsibility to the Originator and the Originator's right of recourse when conditions of revocation, as clearly indicated on the authorization agreement, are not met.

Once the Written Statement of Unauthorized Debit has been signed and the Receiver has been reccredited, the institution has satisfied its obligation under the *ACH Rules*.

An ODFI may request, in writing, a copy of the Written Statement of Unauthorized Debit up to one year from the date of the extended return. Upon receipt of a timely request, an RDFI must provide a copy of the Written Statement of Unauthorized Debit within 10 banking days. The *ACH Rules* require the financial institution to retain the original or a reproducible copy of the Written Statement of Unauthorized Debit for one year from the Settlement Date of the extended return entry(ies). It is recommended that the RDFI retain a copy for six years along with the records of ACH activity.

Refer to the *Operating Guidelines* of the *ACH Rules* for a sample Written Statement of Unauthorized Debit or contact your Regional Payments Association to purchase these forms.

Return Reasons by ACH Application

As stated before, return entries must generally be transmitted by the institution so that the entry is made available to the ODFI no later than the opening of business on the second banking day following the Settlement Date of the original entry ("24-hour" deadline). Some reasons meeting this return deadline include:

1. Insufficient funds (R01)
2. Account closed (R02)
3. No account/unable to locate account (R03)
4. Invalid account number (R04)

Additionally, a Receiver (consumer) may place a stop payment on an entry by providing either verbal or written stop payment instructions to the institution at least three banking days before the scheduled date of the entry or in such time and manner to allow the RDFI a reasonable opportunity to act upon the stop payment instructions prior to acting on the debit entry. In this case, the RDFI would return the entry within the "24-hour" deadline using Return Reason Code R08—Stop Payment.

The table below represents the SEC codes that can be returned for the reasons mentioned:

RETURN REASON	ARC	BOC	IAT	POP	PPD	TEL	WEB
R01 Insufficient Funds	X	X	X	X	X	X	X
R02 Account Closed	X	X	X	X	X	X	X
R03 No Account/Unable to Locate Account*			X		X	X	X
R04 Invalid Account Number	X	X	X	X	X	X	X
R08 Stop Payment	X	X	X	X	X	X	X

*R03 may not be used to return ARC, BOC or POP entries solely because they do not contain the Receiver's name in the Individual Name/Receiving Company Name field.





ACH EXCEPTION HANDLING

The institution has an extended return deadline for the following reasons:

1. Entry was not authorized by the Receiver (R10)
2. Debit amount was in an amount different than authorized or in an amount other than indicated on the source document for check conversion (R10)
3. Debit date was earlier than authorized (R10)
4. Authorization for recurring payment has been revoked by the Receiver (R07)
5. Consumer claims source document used for check conversion was not eligible for conversion (R10)
6. Source document was presented for payment in addition to the ACH entry (R37)
7. Proper notice was not provided to the Receiver regarding the check conversion (R10)
8. Financial institution placed stop payment on paper item instead of document for ACH check conversion (R38)

9. The debit was part of an incomplete transaction in which an Originator, Third-Party Sender or ODFI debits a consumer's account to collect funds, but does not complete the corresponding payment (credit) to the party to which payment is owed; effective March 21, 2014 a non-consumer account may also dispute an incomplete ARC, BOC or POP entry (R10)

For the preceding exceptions, the return entry must be transmitted to the ACH Operator by the deposit deadline to be made available to the ODFI no later than the opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry. In all these circumstances, except for R38—Stop Payment on Source Document, the RDFI would be required to obtain a Written Statement of Unauthorized Debit from its customer/member prior to returning the entry. If the RDFI is returning a check conversion entry using R38, the original stop payment form covers the return process.

For a listing of Return Reason Codes, see the Appendix of this guide.

The table below represents the SEC codes that can be returned for the reasons mentioned:

RETURN REASON	PPD	WEB	TEL	ARC	BOC	POP
R07 Authorization Revoked	X	X	X			
R10 Customer Advises Entry is Unauthorized, Improper, Ineligible or Part of an Incomplete Transaction	X	X	X	X	X	X
R37 Source Document Presented for Payment				X	X	X
R38 Stop Payment on Source Document				X	X	

Re-presented Check (RCK) Entries

Unlike most ACH return entries, RCK return entries must be transmitted to the ACH Operator by midnight of the second banking day following the date of receipt of the RCK entry, which follows check law. An RCK entry is deemed received by the institution when the ACH Operator makes the entry available to retrieve.

A Receiver (consumer) may place a stop payment on an RCK entry by providing either verbal or written stop payment instructions to its RDFI in such time and manner to allow the institution reasonable opportunity to act upon the stop payment instructions prior to acting on the debit entry. The

RDFI would return the entry within the “24-hour” deadline using the Return Reason Code R08—Stop Payment. However, if the stop payment was placed on the source document to which the RCK entry relates instead of the RCK (i.e., stop payment on check system instead of ACH system), the return entry must be transmitted so that the entry may be made available to the ODFI no later than the banking day following the sixtieth calendar day following the Settlement Date of the original entry. In this case, the RDFI would use Return Reason Code R52—Stop Payment on Item. No Written Statement is required for this stop payment return as the original stop payment form covers the return process.





RDFIs have an extended return deadline for the following reasons:

1. Notice of RCK policy was not provided to the Receiver (R51)
2. Item is ineligible (R51)
3. Signatures are not authentic or authorized (R51)
4. Amount of the RCK entry was not accurately obtained from the item (R51)
5. Both the RCK entry and the item to which the RCK entry relates have been presented for payment (R53)

For the exceptions listed above, the return entry must be transmitted to the ACH Operator by the deposit deadline to be made available to the ODFI no later than the opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry. In these circumstances, the RDFI would be required to obtain a Written Statement of Unauthorized Debit from its customer/member prior to returning the RCK entry.

International ACH Transactions (IAT)

Inbound IAT debit entries may be returned for any valid reason, including insufficient funds, account closed and stop payment, and must be transmitted by the institution so that the entry is made available to the ODFI no later than the opening of business on the second banking day following the Settlement Date of the original entry (“24-hour” deadline).

The institution has an extended return deadline for unauthorized inbound IAT debit entries. These return entries must be transmitted to the ACH Operator by the deposit deadline to be made available to the ODFI no later than the opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry. The customer/member will be required to complete a Written Statement of Unauthorized Debit prior to returning the IAT entry.

IAT return formatting requirements differ from other ACH return processing. When returning an IAT entry, an RDFI is required to include the seven mandatory addenda records that came with the forward item. Addenda records related to the remittance data and any foreign correspondent bank(s) will not be transmitted as part of the IAT return entry.

Dishonored and Contested Dishonored Returns are not permitted for use with IAT entries. These domestic exception processes do not have counterparts with foreign payment systems, and therefore, must be handled outside of the ACH Network.

Corporate Debit Entries to a Consumer Account

If a debit entry was transmitted to a consumer account using a corporate SEC Code (CCD or CTX) and it was not authorized by the consumer, the entry may be returned using Return Reason Code R05—Unauthorized Debit to Consumer Account Using Corporate SEC Code. The institution has 60 calendar days from the Settlement Date to return the entry and must obtain a Written Statement of Unauthorized Debit.

Corporate Entries

Return entries for corporate ACH transactions must be transmitted so that the return entry is made available to the ODFI no later than the opening of business on the second banking day following the Settlement Date of the original entry (“24-hour” deadline).

The *ACH Rules* provide for the return of unauthorized corporate debits (CCD and CTX) with a unique Return Reason Code R29—Corporate Customer Advises Not Authorized. These transactions also have the “24-hour” deadline. However, if an RDFI receives notification from its corporate Receiver of an unauthorized corporate transaction beyond the return deadline, it may contact the ODFI and request permission to send a late return. If the ODFI agrees to accept the late return, the RDFI will return the entry using Return Reason Code R31—Permissible Return Entry. When Return Reason Code R31 is used without the ODFI’s permission, the ODFI has the right to dishonor the return using Return Reason Code R70—Permissible Return Not Accepted. The Dishonored Returns section of this *Guide* provides further details on dishonored returns.

An RDFI may request, in writing, proof of authorization for corporate entries. If proof of authorization is requested, the ODFI must provide within ten banking days of the RDFI’s request either a copy of the authorization or the Originator’s company name and phone number or email address for inquiries.

Given the limited and strict timeframes in which corporate entries must be returned, the financial institution may choose to offer services that would block unauthorized ACH debits. These services generally fall into two categories:

- **ACH Debit Block**—ACH debits destined to a particular account are automatically returned.
- **ACH Debit Filter**—ACH debits, except for those that are pre-authorized, destined to a particular account are automatically returned. This requires the corporate customer to identify who they will accept entries from.

Prenotification Entries

Returning an incorrect prenotification gives the ODFI an opportunity to investigate information regarding the transaction and make corrections before a live dollar entry is sent. The institution may choose to return a prenotification if the account number is unable to be identified. In this case, the return entry must be sent in accordance with regular return procedures. Information for the returned prenotification is completed in the same manner as live dollar transactions, except that the amount of the transaction will be zero.



Looking for a quick way to locate return reasons and deadlines? Contact your Regional Payments Association to order a copy of the [*ACH Quick Reference Cards for Financial Institutions*](#).



ACH OPERATOR REJECTS

The ACH Operator may reject entries that are submitted with errors. A rejected entry can occur from either an origination file or return item file. When a return entry is rejected at the ACH Operator level, the entry does not go any further in the process and is not passed along to the ODFI. Instead, it is returned to the submitting RDFI for corrective action. Once corrected, the entry must be reinitiated. Deadlines for returns can be affected by ACH Operator rejects. For this reason, the RDFI should review an acknowledgment report provided by the ACH Operator to confirm successful transmission and processing of files.

TAKE ACTION! If a mistake on a return entry is made and is rejected by the ACH Operator, the return timeframe will not be extended. Ensure that the issue is corrected quickly in order to remain within the established return timeframes.

DISHONORED RETURNS

A dishonored return is an ACH return transmitted by an ODFI in response to a returned ACH entry that was mishandled by the RDFI for one of the following reasons:

1. Untimely return of an ACH entry
2. Misrouting of a return to the wrong ODFI
3. The return contained incorrect or incomplete information as required by the *ACH Rules*

An ODFI dishonors a returned entry in an attempt to either dispute the return for inappropriate handling or to advise the RDFI that an error in information prevents the entry from being identified. Special Return Reason Codes identify the ODFI's reason for dishonoring a return. The addenda record of a Dishonored Return carries information that identifies the Return Reason Code and details the reason the entry was dishonored. A dishonored return must be transmitted by the ODFI within five banking days from the Settlement Date of the return entry.

CONTESTED DISHONORED RETURNS

The proper action required by the financial institution varies, depending on whether the dishonored return was disputed or represents a need for a correction. An RDFI may:

1. Contest a dishonored return based on a dispute of timeliness, or
2. Correct a dishonored return for the purpose of correcting return information related to the original entry (e.g., account number, transaction code, etc.)

In either case, the RDFI must respond within two (2) banking days of the Settlement Date of the dishonored return. If the RDFI properly contests a dishonored return (i.e., on time and without error), the ODFI must accept the entry and resolve further disputes outside of the ACH Network.

Valid Dispute of Return Entry

If the reason a return was dishonored is valid (e.g., a return disputed as untimely was, in fact, a late return), the institution must accept the entry. The RDFI may be able to collect funds from the customer/member in some cases (e.g., an account now has funds where the original entry was returned insufficient). Questions regarding the financial institution's right to collect from the customer/member should be referred to legal counsel.

Erroneous Routing Information

Dishonored Return Reason Code R61 indicates that the return was misrouted to the wrong ODFI. The RDFI should attempt to return the original entry again to the correct ODFI using regular return procedures. If the deadline for returning the original entry has already passed, the institution is liable for a loss associated with the error in handling.





Erroneous Return Information

Dishonored Return Reason Code R69 indicates an error(s) was found in the information contained in the return entry. Special codes are used in the addenda record to identify the particular error(s) and include:

- 01—Account Number
- 02—Trace Number
- 03—Amount
- 04—Individual Identification Number
- 05—Transaction Code
- 06—Company Identification Number
- 07—Effective Entry Date

The RDFI may correct information by sending a contested dishonored return using R74—Corrected Return and should complete the contested dishonored return based on information found on the Daily Activity Report of the original entry. If the identified error(s) cannot be found, it may send a contested dishonored return using R76—No Errors Found.

Invalid Disputes of Returned Entries

If the RDFI disagrees with the reason for a dishonored return (e.g., R67—Duplicate Return or R68—Untimely Return), it may submit a contested dishonored return using the appropriate code (R75—Original Return Not a Duplicate and R73—Timely Original Return, respectively).

Your ACH Operator, Third-Party Processor or software provider may provide assistance in successfully completing Contested Dishonored Return information. For a listing of Dishonored and Contested Dishonored Return Reason Codes, see the Appendix of this *Guide*.

NOTIFICATIONS OF CHANGE (NOC)

Occasionally, the financial institution will receive an ACH entry that contains incorrect information (i.e., account number, account name, etc.). While it may be able to identify the intended account holder, the error may cause the item to reject. In these instances, the RDFI may send an NOC or return the entry. The NOC application allows the RDFI to send a message requesting the correction of information without returning the value of the entry. However, the institution does warrant that the information contained in an NOC is correct. By initiating an NOC, By initiating and NOC, the RDFI warrants the information sent in the NOC is correct.

If an RDFI chooses to send an NOC, it must do so within two banking days from the Settlement Date of the original entry. Delayed processing of NOCs may make it difficult for the ODFI to match transaction information, resulting in a lack of response to the NOC. ODFIs must report NOC information to Originators within two banking days from the Settlement Date of the NOC. Originators of Recurring entries must make the specified changes within six banking days of receipt of the NOC information or prior to initiating

another entry to the Receiver's account, whichever is later. Originators of Single-Entry payments are not required to make the specified changes.

Mass Changes

Mass changes may be necessary in the case of account re-numbering or routing number changes that may occur as a result of a data processing conversion or a financial institution merger. If the institution experiences this, it may benefit from special handling procedures. Contact the ACH Operator for assistance.

Completing NOC Information

Most of the information necessary to complete an NOC is found on the Daily Activity Report. It is important to complete every field of information that has been provided with the original entry. This ensures that the Originator can identify the entry to make the requested changes.

- A three-character change code beginning with the letter 'C' is applied to all NOCs to indicate the information that is being changed.





- When completing the NOC, the change fields should be completed with the corrected information (e.g., the correct account number). Other fields on the form are used to identify the transaction as it was received.
- Change Code C05—Incorrect Transaction Code is used when an item has the wrong transaction code (demand deposit, savings, general ledger or loan). When using this code, the correct two-digit Transaction Code should be entered in the change field.
- Multiple change fields allow more than one change to be identified within a single NOC. For example, Change Code C03—Incorrect Routing Number and Incorrect Account Number is a combination of C01 and C02. When using C03, the correct routing number should be entered first and the correct account number should be entered second.

No Response to NOCs

Depending on the timing of the transactions (bi-weekly/monthly) and the timing of the NOC, additional transactions may be received incorrectly before the Originator makes the change. If, after two or more payment cycles, errors related to Recurring payments have not been changed, the following best practices are suggested:

- Check the NOC for accuracy and submit another one.
- If a correct NOC has been submitted more than twice, contact the ODFI to inform them of the difficulty and seek their assistance with the Originator.
- If the above efforts have failed, the RDFI may submit a Report of Possible Rules Violation to NACHA. Attach specific NOC documentation and provide an explanation of the action taken.

Submitting NOCs for Prenotifications

An RDFI is required to check prenotifications for accuracy of information. If an error is discovered on a prenotification and the individual account can be identified, it may post the prenotification and send an NOC immediately so that entry information can be corrected before the initial live dollar entry is originated.

Submitting NOCs for IAT Entries

RDFIs may transmit NOCs related to IAT entries. All NOC codes may be used except C03—Incorrect Routing Number and Account Number, C06—Incorrect Account Number and Transaction Code and C07—Incorrect Routing Number, Account Number and Transaction Code. NOCs related to IAT entries will be distinguished from domestic NOCs through the use of an IAT indicator code of “IATCOR.” Refused NOCs will not be supported for IAT entries.

Refused Notifications of Change

An ODFI may refuse an NOC that contains incorrect information or does not include all of the information required. To refuse an NOC, the ODFI must submit a Refused NOC entry within 15 calendar days of receipt of the NOC using a unique Change Reason Code to identify the reason for the refusal. A Refused NOC may appear on the Detailed Exception listing (depending on the processing software used). The Refused NOC Reason Code is contained in an addenda record accompanying regular transaction information. An RDFI may, within five banking days of receipt of the Refused NOC, send a corrected NOC using regular NOC procedures.

Reference *Appendices 7, 8, and 9* of the *ACH Rules* for detailed information on the Rules Enforcement Process.



Refer to the listing of NOC and Refused NOC Codes in the Appendix of this guide, or contact your Regional Payments Association to order a set of the *ACH Quick Reference Cards for Financial Institutions*.





OTHER EXCEPTIONS

Duplicate Files

A duplication of file processing can cause a host of problems from account overdrafts and returned items to customer service charges. Duplicated credits may cause improper withdrawals and incorrectly stated balances. Duplications should be suspected when items are received with identical trace numbers or have the same dates and amounts. The following action is suggested:

- Verify that the duplication is not a result of double posting by the financial institution. If so, reverse posting as soon as possible and notify customer assistance staff.
- Contact the ACH Operator or ODFI to determine whether the duplication was a result of their processing, and determine the method to be used in correcting the problem.
- In the case of duplicated debit entries, accounts should be monitored for improper returns and return charges. For duplicated credit entries, place holds on accounts to prevent improper withdrawals.
- The ODFI may ask an RDFI to return duplicated items; the RDFI should consider doing so promptly.

Reversals

In the event an erroneous or duplicate transaction or file is originated, the *ACH Rules* allow the Originator or ODFI to reverse the transaction or file. An erroneous entry or file is one that contains the wrong amount; is directed to the account of an entity not intended to be paid by the Originator; or is a duplicate of a previous transaction or file. The reversing entry or file must be transmitted within five banking days from the Settlement Date of the erroneous

or duplicate entry or file. If funds are available in the customer's/members account, the RDFI must accept the transaction.

The *ACH Rules* require the Originator of a reversing entry to notify the Receiver that a reversing entry has been transmitted to their account, including the reason for the reversal, no later than the Settlement Date of the reversing entry.

When an ODFI originates a reversal, the transactions are batched separately. In doing so, the word REVERSAL must appear in the Company Entry Description field in the Company/Batch Header Record.

Reversals Due to Separation of Employment

Some states require employers to issue a check to an employee at the time of separation of employment. In cases where the employer has initiated a PPD credit entry prior to the employee's termination, it is common for the employer to reverse the payment to offset the check. The *ACH Rules* address this situation by allowing the Originator (employer) to reverse the PPD credit entry if:

- The PPD credit entry is for funds related to employment (i.e., payroll);
- The amount of the separation check is equal to or greater than the PPD credit amount; and
- The PPD credit entry was transmitted by the employer prior to delivery of the separation check.

In these instances, the employer must notify the separated employee of the reversing entry at the time the check is delivered.

NOTEWORTHY

- If you receive an item that contains "REVERSAL" in the Company Entry Description field, you cannot return it as unauthorized because the debit authorization requirements under the *ACH Rules* do not apply.
- If a debit is received and returned as insufficient, then a reversing credit comes in, you should return it too. Effective March 20, 2015 the ODFI will be allowed to dishonor the return of the debit entry when the credit entry is not also returned.





ODFI Request for Return

The ODFI may request that the financial institution return an erroneous or duplicate transaction instead of transmitting a reversal. Although the RDFI does not have to adhere to the request, it is encouraged to work with the ODFI. It is reasonable that the RDFI require a written request to document the return prior to returning it using Return Reason Code R06—Returned per ODFI's Request. The ODFI indemnifies the financial institution against all losses that result from the origination of erroneous entries and reversals.

Remakes

ACH files should be processed immediately upon receipt by the RDFI (or its data processor) to determine that the file can be read and that detail entries balance to control totals. If an error is noted, or if the file cannot be read, the ACH Operator should be contacted for a remake as soon as possible.

Processing Delays

An exception results when a debit is not charged on the Settlement Date or when funds are not made available to a depositor for a credit on the Settlement Date. Proper handling may depend on whether a credit or debit entry is affected by the delay. It is suggested an RDFI:

- Notify the ACH Operator and its Regional Payments Association.
- Post the entry as soon as possible after the Settlement Date.
- Process any necessary returns as soon as possible to avoid untimely returns.
- Notify customer/member service personnel regarding any posting delays. Take action to prevent overpayment of balances as well as problems associated with the availability of funds.
- Ensure against the return of checks or any other debits on accounts with insufficient funds due to duplicate posting of debits.
- Arrange a refund of overdraft charges if it resulted from untimely posting of an ACH deposit.
- Ensure customers/members receive interest from the Settlement Date of ACH credits to all interest-bearing accounts.





SAMPLE DAILY ACTIVITY REPORT

The format of the Daily Activity Report may be different for each RDFI; however, it should contain information provided from the Company/Batch Header Records and Entry Detail Records of the

ACH files. An illustration listing some key pieces of information along with descriptions is shown below.

RECEIVING FINANCIAL INSTITUTION 1010-0000-0 XYZ BANK & TRUST							
COMPANY		SETT		OSC		PPD	
INS PREM		EFF		ENTRY DATE		ORIGIN NO. 1111-1111	
ID NUMBER		TRACE NUMBER		ENTRY TYPE		ACCT NO.	
INDIV NAME		DISC		DEBIT AMT		CREDIT AMT	
JOHN WALKER		3215437721		11111112250001		DEMAND DR	
MARY BERRY		6543822445		11111112250005		DEMAND DR	
SUSIE QUE		2144413321		11111112250009		DEMAND DR	
RALPH RUFF		4553411114		11111112250011		DEMAND DR	
*** BATCH TOTALS ***		ENTRY - ADDENDA COUNT 4		TOTL DBTS		TOTL CRDTS	
						233	

BATCH/FILE LEVEL INFORMATION:

- Company Name**—entity or individual originating batch of entries (Originator)
- Company ID**—number that uniquely identifies the Originator to the ODFI (tax ID number often used)
- Settlement Date**—three-digit Julian date which represents the date funds are actually settled by the ACH Operator (i.e., Federal Reserve Bank or The Clearing House)
- Originator Status Code**—distinguishes between Commercial and Federal Government Originators (1=Commercial, 2=Federal Government entity or agency)
- Standard Entry Class Code**—three-character alpha code which distinguishes application type and identifies which rules apply
- Company Entry Description**—describes the entry and should be provided to the account holder
- Effective Entry Date**—date Originator intended entries to settle (actual Settlement Date may differ)
- Entry/Addenda Count**—total number of entries and addenda records in the file (or batch)
- Total Debits/Total Credits**—value of entries in the file (or batch) for reconciliation

ENTRY LEVEL INFORMATION:

- Individual Name**—name of account holder
- Individual ID Number**—number that identifies Receiver to the originating entity
- Trace Number**—15-digit trace number that uniquely identifies an entry (first eight digits identify the routing number of ODFI or government agency)
- Entry Type**—identifies whether entry is a debit or credit to a demand, savings, financial institution's general ledger account or a credit or reversal to a loan account
- Account Number**—number of account for entry to be posted
- Amount**—dollar value of the entry





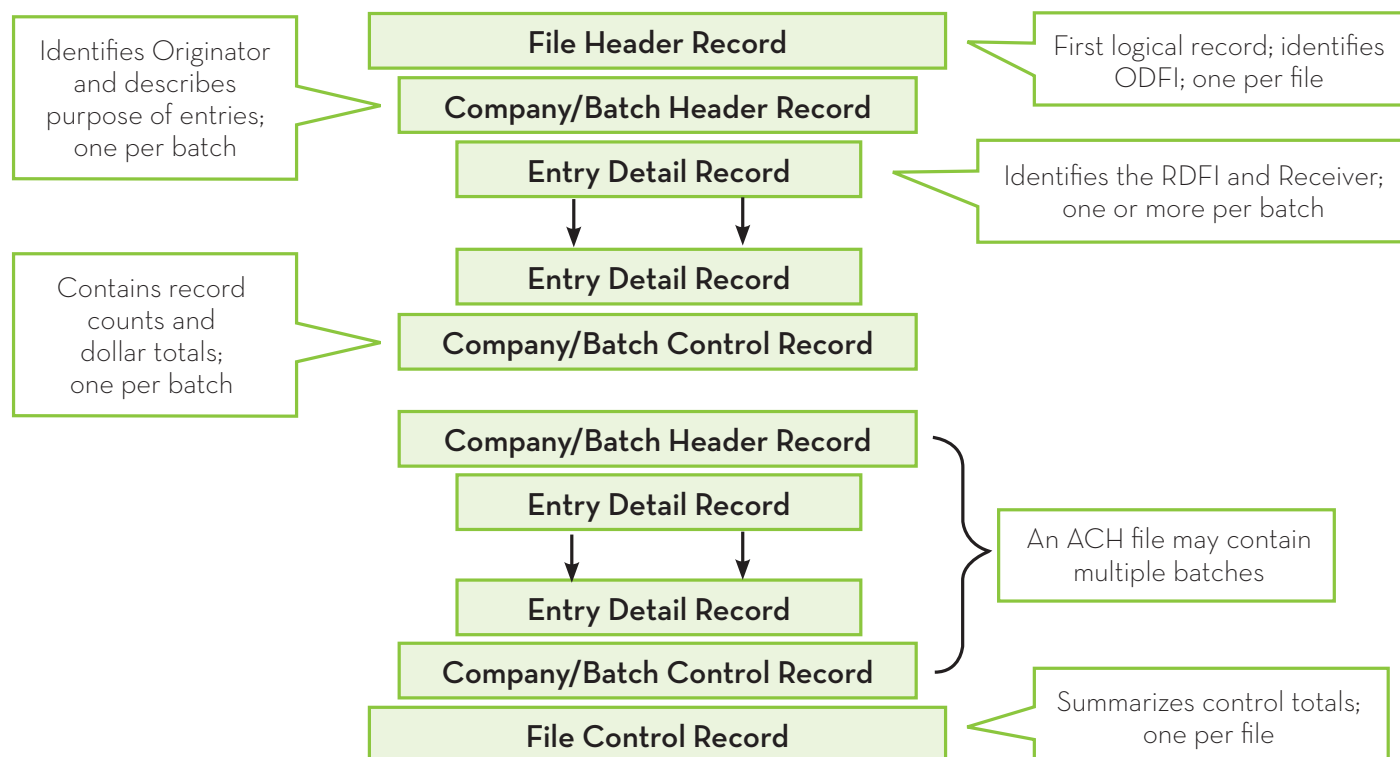
ACH FILE LAYOUT

Sequence of Records

Records in an ACH file must be in the sequence shown. Each record identifies specific information about the transaction(s) being sent. The contents of each record must be formatted properly to ensure compatibility amongst the various ACH

Network participants, which results in effortless processing of electronic transmissions. *Appendix 1* of the *ACH Rules* describes the file layout shown below in greater detail.

The *ACH Rules* detail the record format for all entries and describe the data required in each field of a record.



Addenda records may accompany an Entry Detail Record providing payment-related information. For a listing of SEC Codes that allow the use of an addenda record, see the *ACH Rules*.





RETURN REASON CODES USED BY RDFIs

R01—Insufficient Funds—Available balance is not sufficient to cover the dollar value of the debit entry.

R02—Account Closed—Previously active account has been closed by customer or RDFI.

R03—No Account/Unable to Locate Account—Account number structure is valid and passes editing process, but does not correspond to individual identified in entry or is not an open account. *(Note: This Return Reason Code may not be used to return ARC, BOC or POP entries solely because they do not contain an Individual Name.)*

R04—Invalid Account Number—Account number structure not valid; entry failed check digit validation or may contain an incorrect number of digits.

R05—Unauthorized Debit to Consumer Account Using Corporate SEC Code (Extended Return Entry)—A CCD or CTX debit entry was transmitted to a Consumer Account of the Receiver and was not authorized by the Receiver. Written Statement required.

R06—Returned per ODFI's Request—ODFI has requested RDFI to return the ACH entry (optional to RDFI); ODFI indemnifies RDFI.

R07—Authorization Revoked by Customer (Extended Return Entry)—Consumer, who previously authorized ACH payment, has revoked authorization from Originator. Must be returned no later than 60 days from Settlement Date and the RDFI must obtain a Written Statement. Prohibited use for ARC, BOC, POP and RCK.

R08—Payment Stopped—Receiver of a debit transaction has stopped payment on a specific ACH debit. (For consumer accounts, RDFI should verify whether the Receiver's intent is to stop one payment or all future payments.)

R09—Uncollected Funds—Sufficient book or ledger balance exists to satisfy dollar value of the transaction, but the dollar value of transactions in process of collection (i.e., uncollected checks) brings available or cash reserve balance below dollar value of the debit entry.

R10—Customer Advises Entry is Unauthorized, Improper, Ineligible or Part of an Incomplete Transaction—Receiver has advised RDFI that Originator of transaction is not authorized to debit account, did not provide notice, used an improper source document, did not accurately obtain the amount of the entry from the source document or is part of an incomplete transaction. RDFI must obtain a Written Statement and return the entry no later than 60 days from Settlement Date. *Effective September 18, 2015 this code can be used for exceeding reinitiation attempts.*

R11—Check Safekeeping Entry Return—Used when returning a check truncation entry; RDFI should use appropriate field in addenda record to specify reason for return (e.g., "exceeds dollar limit," "stale date," etc.).

R12—Account Sold to Another DFI—Financial institution may continue to receive entries destined for an account that has been sold to another financial institution.

R14—Representative Payee Deceased or Unable to Continue in that Capacity—The representative payee authorized to accept entries on behalf of a beneficiary is either deceased or unable to continue in that capacity.

R15—Beneficiary or Account Holder (Other than Representative Payee) Deceased—(1) The beneficiary entitled to payments is deceased; or (2) the account holder other than a representative payee is deceased.

R16—Account Frozen—Access to account is restricted due to specific action taken by the RDFI or by legal action; or OFAC has instructed the RDFI to return the entry.

R17—File Record Edit Criteria—Fields not edited by the ACH Operator are edited by the RDFI and cannot be processed; field(s) causing processing error must be identified in the addenda record of return.

R20—Non-Transaction Account—ACH entry is destined for a non-transaction account (i.e., an account against which transactions are prohibited or limited).

R21—Invalid Company Identification—Identification number used in the Company ID field is not valid. This return reason code is normally used for CIE entries.

R22—Invalid Individual ID Number—In a CIE or MTE entry, the Individual ID Number is used by the Receiver to identify the account; Receiver has indicated to RDFI that the number identified by the Originator is not correct.

R23—Credit Refused by Receiver—Receiver refuses credit entry because of one of the following conditions: (1) minimum amount required by Receiver has not been remitted, (2) exact amount required has not been remitted, (3) account subject to litigation and Receiver will not accept transaction, (4) acceptance of transaction results in overpayment, (5) Originator is not known by Receiver or (6) Receiver has not authorized the credit entry.





R24—Duplicate Entry—RDFI has received what appears to be a duplicate entry (i.e., trace number, date, dollar amount and/or other data matches another transaction). This code should be used with extreme care as the Originator may have originated a reversal transaction to handle the situation.

R29—Corporate Customer Advises Not Authorized—RDFI has been notified by Receiver (non-consumer) that entry was not authorized.

R31—Permissible Return Entry (CCD and CTX Only)—RDFI has been notified by ODFI that ODFI agrees to accept a return entry beyond normal return deadline.

R33—Return of XCK Entry—RDFI, at its discretion, returns an XCK entry (code only used for XCK returns). XCK entries may be returned up to 60 days after Settlement Date.

CODES TO BE USED FOR THE RETURN OF ARC, BOC OR POP ENTRIES

R37—Source Document Presented for Payment (Adjustment Entry)—The source document to which an ARC, BOC or POP entry relates has been presented for payment. RDFI must obtain a Written Statement and return the entry within 60 days following Settlement Date.

R38—Stop Payment on Source Document (Adjustment Entry)—A stop payment has been placed on the source document to which the ARC or BOC entry relates. RDFI must return no later than 60 days following Settlement Date. No Written Statement is required as the original stop payment form covers the return.

R39—Improper Source Document—The RDFI has determined the source document used for the ARC, BOC or POP entry to its Receiver's account is improper.

CODES TO BE USED FOR THE RETURN OF RCK ENTRIES

R50—State Law Affecting RCK Acceptance—RDFI is located in a state that has not adopted Revised Article 4 of the UCC or the RDFI is located in a state that requires all canceled checks to be returned within the periodic statement.

R51—Item Related to RCK Entry is Ineligible or RCK Entry is Improper—The item to which the RCK entry relates was not eligible, Originator did not provide notice of the RCK policy, signature on the item was not genuine, the item has been altered or amount of the entry was not accurately obtained from the item. RDFI must obtain a Written Statement and return the entry within 60 days following Settlement Date.

R52—Stop Payment on Item (Adjustment Entry)—A stop payment has been placed on the item to which the RCK entry relates. RDFI must return no later than 60 days following Settlement Date. No Written Statement is required as the original stop payment form covers the return.

R53—Item and RCK Entry Presented for Payment (Adjustment Entry)—Both the RCK entry and check have been presented for payment. RDFI must obtain a Written Statement and return the entry within 60 days following Settlement Date.

RETURN REASON CODES USED BY GATEWAY FOR THE RETURN OF IAT ENTRIES

R80—IAT Entry Coding Error—The IAT entry is being returned due to one or more of the following conditions: invalid DFI/Bank Branch Country Code, invalid DFI/Bank Identification Number Qualifier, invalid Foreign Exchange Indicator, invalid ISO Originating Currency Code, invalid ISO Destination Currency Code, invalid ISO Destination Country Code or invalid Transaction Type Code.

R81—Non-Participant in IAT Program—The Gateway does not have an agreement with the ODFI to process IAT entries.

R82—Invalid Foreign Receiving DFI Identification—The reference used to identify the foreign receiving DFI is invalid.

R83—Foreign Receiving DFI Unable to Settle—The IAT entry is being returned due to settlement problems in the foreign payment system.

R84—Entry Not Processed by Gateway—The outbound IAT entry has not been processed and is being returned at the Gateway's discretion because either (1) the processing may expose the Gateway to excessive risk or (2) the foreign payment system does not support the functions needed to process the transaction.

R85—Incorrectly Coded Outbound International Payment—The Gateway has identified the entry as an outbound international payment and is returning the entry because it does not bear the IAT SEC code.





ACH OPERATOR REJECT CODES

R13—Invalid ACH Routing Number—Entry contains a Receiving DFI Identification or Gateway Identification that is not a valid ACH routing number.

R18—Improper Effective Entry Date—Effective date of the ACH entry is outside of the processing window of either a credit or debit entry (beyond two days for a credit entry or beyond one day for a debit entry).

R19—Amount Field Error—The amount field is: (1) non-numeric, (2) not zero in a Prenotification, DNE, ENR or NOC (3) a zero amount in an ACH “valued” transaction format or (4) the amount is greater than \$25,000 for ARC, BOC and POP entries.

R25—Addenda Error—An error exists in the addenda record in regards to application of codes, values, content or required formatting standards.

R26—Mandatory Field Error—An error exists in a field which is required for ACH processing and is subject to edits by the ACH Operator.

R27—Trace Number Error—Original Entry Trace Number is either not present in the addenda record of an automated return or Notification of Change entry or disagrees with the preceding Entry Detail Record.

R28—Routing Number Check Digit Error—The check digit for a routing number is invalid.

R30—RDFI Not Participant In Check Truncation Program—Non-participating RDFI or routing number is incorrect.

R32—RDFI Non-Settlement—RDFI is not able to settle the entry.

R34—Limited Participation DFI—The RDFI’s participation has been limited by a federal or state supervisor.

R35—Return of Improper Debit Entry—ACH debit not permitted for use with the CIE Standard Entry Class Code or ACH debit not permitted to loan accounts (except for reversals).

R36—Return of Improper Credit Entry—ACH credit not permitted for use with ARC, BOC, POP, RCK, TEL, WEB or XCK which are limited to debits to demand accounts (except for reversals).

DISHONORED RETURN CODES USED BY ODFIs

R61—Misrouted Return—RDFI of the original entry has placed the incorrect routing number in the Receiving DFI Identification field.

R62—Return of Erroneous or Reversing Debit (Effective March 20, 2015)—Usage is limited to reversal scenarios in which the Receiver is unintentionally credited.

R67—Duplicate Return—ODFI has received more than one return for the same entry.

R68—Untimely Return—Return was not sent within the time frame established by the *ACH Rules*.

R69—Field Error(S)—One or more of the following fields—DFI Account Number, Original Entry Trace Number, Amount, Individual Identification Number/Identification Number, Company Identification, Transaction Code and/or Effective Entry Date—are incorrect. The ODFI must insert the appropriate code(s) from the list below, separated by an asterisk (*), within the Addenda Information Field of the Addenda Record Format for Automated Dishonored Returns to indicate the field(s) in which the error(s) occurred:

- 01—Return contains incorrect DFI Account Number
- 02—Return contains incorrect Original Entry Trace Number
- 03—Return contains incorrect Dollar Amount
- 04—Return contains incorrect Individual Identification Number/Identification Number
- 05—Return contains incorrect Transaction Code
- 06—Return contains incorrect Company Identification Number
- 07—Return contains invalid Effective Entry Date

R70—Permissible Return Entry Not Accepted/Return Not Requested By ODFI—ODFI has received a return identified as being returned with the permission of the ODFI (Return Reason Code R31), but the ODFI has not agreed to accept the entry or ODFI has received a return entry (Return Reason Code R06) which they did not request.





CONTESTED DISHONORED RETURN CODES USED BY RDFIs

R71—Misrouted Dishonored Return—ODFI has placed the incorrect routing number in the RDFI Identification field.

R72—Untimely Dishonored Return—Dishonored return was not sent within five banking days of the Settlement Date of the return entry.

R73—Timely Original Return—RDFI certifies that the original return was sent within the time frame designated in the *ACH Rules*. This code may be used by the RDFI to contest an entry dishonored by the ODFI using Return Reason Code R68—Untimely Returns.

R74—Corrected Return—RDFI is correcting a previous return that was dishonored because it contained incomplete or incorrect information. This code may be used by the RDFI to contest an entry dishonored by the ODFI using Return Reason Code R69—Field Error(s).

R75—Original Return Not a Duplicate—The original return entry was not a duplicate of an entry previously returned by the RDFI. This code may be used by the RDFI to contest an entry dishonored by the ODFI using Return Reason Code R67—Duplicate Return.

R76—No Errors Found—The original return entry did not contain the errors indicated by the ODFI in the Dishonored Return Entry bearing Return Reason Code R69—Field Error(s).

R77—Non-Acceptance of R62 Dishonored Return (Effective March 20, 2015)—RDFI returned both the erroneous entry and related reversing entry; or the funds related to the R62 are not recoverable from the Receiver.

NOTIFICATION OF CHANGE CODES

C01—Incorrect DFI Account Number—Account number is incorrect or is formatted incorrectly. Correct DFI Account Number appears in the first (left justification) 17 positions of the Corrected Data Field.

C02—Incorrect Routing Number—Due to a merger or consolidation, a once valid routing number must be changed. Correct Routing Number (including check digit) appears in first 9 positions of the Corrected Data Field.

C03—Incorrect Routing Number and Incorrect DFI Account Number—Due to a merger or consolidation, a once valid routing number must be changed, and this change will cause a change to the account number structure. Correct routing number should be entered in Change Field 1 and correct account number should be entered in Change Field 2. (*Note: This code is not available for use with IAT.*)

C04—Incorrect Individual Name/Receiving Company Name—Customer has changed name or ODFI has submitted the name incorrectly. NOCs may not be submitted for name changes on Federal Government items. (*Note: Effective March 20, 2015, this change code will no longer be available.*)

C05—Incorrect Transaction Code—An item which the RDFI determines should be posted to a different account type. The correct Transaction Code should be placed in Change Field 1.

C06—Incorrect DFI Account Number and Incorrect Transaction Code—Correct account number appears in the first (left justification) 17 positions of the Addenda Information Field; correct Transaction Code appears in positions 21 and 22 of the same field with spaces in positions 18 through 20. (*Note: This code is not available for use with IAT.*)

C07—Incorrect Routing Number, Incorrect DFI Account Number and Incorrect Transaction Code—Correct routing number appears in the first 9 positions of the Addenda Information Field; correct account number appears in positions 10 through 26 of the same field and correct Transaction Code appears in positions 27 and 28 of the same field. (*Note: This code is not available for use with IAT.*)

C08—Incorrect Foreign Receiving DFI Identification (IAT Only)—The correct Foreign Receiving DFI identification appears in the first (left justification) 11 positions of the Corrected Data Field.

C09—Incorrect Individual ID Number/Incorrect Receiver Identification Number—Individual's ID number is incorrect. This correction applies to transactions initiated by the customer, which may require a PIN number for identification.

C13—Addenda Format Error—Information in the Entry Detail Record was correct and the entry was able to be posted by the RDFI, but information in the addenda record was unclear or formatted incorrectly. For example, a CCD entry addenda record does not contain ANSI X12.

C14—Incorrect SEC Code for Outbound International Payment (Effective March 15, 2013)—The Gateway has identified the entry as an outbound international payment and is requesting future entries be identified as IAT. (*Note: This code is to be used by the Gateway only.*)





REFUSED NOTIFICATION OF CHANGE CODES FOR ODFIs

C61—Misrouted Notification of Change—NOC was sent to wrong ODFI due to error in routing number.

C62—Incorrect Trace Number—Trace number could not be identified.

C63—Incorrect Company Identification Number—Company Identification Number could not be identified. The ODFI cannot identify the originating company.

C64—Incorrect Individual Identification Number—Individual Identification Number could not be identified. Identification number can be identified, but individual can't be identified because of incorrect identification number.

C65—Incorrectly Formatted Corrected Data—Information in addenda record of the NOC could not be processed.

C66—Incorrect Discretionary Data—Discretionary data was not included or contained errors.

C67—Routing Number Not from Original Entry Detail Record—Routing number did not match data in original entry.

C68—DFI Account Number Not from Original Entry Detail Record—DFI Account Number did not match data in original entry.

C69—Incorrect Transaction Code—Transaction Code does not match with the Transaction Code of the original entry.

Looking for a quick way to locate return reasons and deadlines? Contact your Regional Payments Association to order a copy of the *ACH Quick Reference Cards for Financial Institutions*.



SUGGESTED RESOURCES

ACH Audit Workbook—This workbook is designed to assist financial institutions in the completion of the required annual audit. Available through your Regional Payments Association.

ACH Participant Directory—National listing by routing number of participating RDFIs. Also includes listing of EDI capable financial institutions. Available in hard copy through Accuity, 4709 Golf Road, Skokie, IL 60076. Phone: (800) 321-3373.

ACH Quick Reference Cards for Financial Institutions—A seven-card series: ACH Returns, Dishonored and Contested Dishonored Returns, Notifications of Change (NOC), Special Exceptions (including Operator Rejects and Government Payments), Electronic Check Applications, IAT, WEB and TEL. Available through your Regional Payments Association.

ACH Risk Assessment Workbook—This workbook is designed to assist financial institutions in completing an ACH Risk Assessment as required by their regulator. Available through your Regional Payments Association.

ACH Risk Management Handbook—A guide for analyzing risks associated with ACH processing and recommendations for risk control methods and procedures. Available through your Regional Payments Association.

ACH Rules—Available through your Regional Payments Association.

Electronicpayments.org—This Web site is designed to assist financial institutions, businesses and consumers in understanding the world of electronic payments.

Go Direct®—A campaign sponsored by the U.S. Department of the Treasury and the Federal Reserve Banks to motivate people who receive federal benefit checks (i.e., Social Security, Supplemental Security Income, etc.) to use direct deposit. Benefit recipients can enroll by visiting www.godirect.org.

Green Book—A comprehensive guide for financial institutions processing Federal Government ACH payments and collections. Available at www.fiscal.treasury.gov.

OFAC Specially Designated Nationals List—Listing of targeted countries, targeted country nationals and other specifically identified companies and individuals requiring assets and transactions to be frozen.

UCC Article 4A and the Automated Clearing House Network—Source information for UCC 4A and easy to understand commentary. Available through your Regional Payments Association.

A broad selection of ACH materials are available through your Regional Payments Association (RPA) or NACHA. Your RPA or NACHA may provide a copy of the current Payments Publications brochure that provides a complete listing of publications and materials.





Accounts Receivable Entry (ARC)—A single-entry ACH debit initiated by an Originator to a Receiver's account pursuant to a source document (i.e., check/sharedraft) provided to the Originator by the Receiver via the U.S. mail, at a dropbox location or for an in-person bill payment at a manned location.

ACH Network—The funds transfer system governed by the *ACH Rules* of NACHA – *The Electronic Payments Association* which provides for the inter-financial institution clearing of electronic entries for participating financial institutions.

ACH Operator—An organization that provides processing services for the ACH Network. The Federal Reserve Bank and Electronic Payment Network (EPN) are examples of ACH Operators.

Acknowledgments (ACK/ATX)—An ACH application using Standard Entry Class codes ACK and ATX which allows Originators to receive electronic acknowledgments from Receiving Depository Financial Institutions (RDFIs) advising receipt of corporate credit payments (CCD and CTX, respectively).

ACK—The Standard Entry Class code used by the Receiving Depository Financial Institution (RDFI) to acknowledge receipt of corporate credit entries received in the CCD format.

Addenda Record—An ACH record type that carries supplemental data needed to completely identify an account holder(s) or provide information concerning a payment.

ANSI—Acronym for American National Standards Institute.

ARC—The Standard Entry Class code for Accounts Receivable Entries.

ATX—The Standard Entry Class code used by the Receiving Depository Financial Institution (RDFI) to acknowledge receipt of corporate credit entries received in the CTX format.

Automated Clearing House (ACH) Network—The funds transfer system governed by the *ACH Rules* of NACHA – *The Electronic Payments Association* which provides for the inter-financial institution clearing of electronic entries for participating financial institutions.

Automated Enrollment (ENR)—A credit or debit enrollment entry initiated by a participating Depository Financial Institution (DFI) to a Federal Government agency on behalf of an account holder at the DFI. Entries must include at least one addenda record that relays information pertaining to the account holder on whose behalf the ENR is initiated.

Auxiliary On-Us Field—An optional, variable format field of the MICR line of a check or sharedraft. It is positioned to the left of the routing number and data located in this field is bracketed by on-us symbols. The information contained in the Auxiliary On-Us Field is determined by the financial institution and may contain the check serial number or a financial institution code for the account.

Back Office Conversion Entry (BOC)—An ACH application that allows Originators (merchants, retailers, etc.) to initiate single-entry ACH debits by using the check as a source document when appropriate notice is provided in person by the Originator to the Receiver (check writer) for a purchase made at the point-of-sale or at a manned bill payment location.

Banking Day—With reference to a Depository Financial Institution (DFI), any day on which such DFI is open to the public for carrying on substantially all its banking functions; and with reference to an ACH Operator, any day on which the appropriate facility of such ACH Operator is being operated.

Batch—A group of records or documents considered as a single unit for the purpose of data processing.

BOC—The Standard Entry Class code for Back Office Conversion Entries.

Bureau of Fiscal Services—A bureau of the U.S. Department of the Treasury that is the government's financial manager and which manages the government's payments and collections.

CCD—The Standard Entry Class code for Corporate Credit or Debit.

Commercially Reasonable—A commercially reasonable system, technology, practice or procedure is one that corresponds to commonly accepted commercial practices among commonly situated Originators conducting similar types of business.

Commercially Reasonable Security Procedures—A security procedure for the transmission of payment orders which meets the relevant tests under the Uniform Commercial Code Article 4A.

Company/Batch Header Record—The record(s) contained within an ACH file that describes the Originator(s) of an ACH transaction(s) and the types of transactions within that batch.

COR—The Standard Entry Class code for Automated Notification of Change or Refused Notification of Change.

Corporate Credit or Debit (CCD)—An ACH debit or credit entry initiated by an organization to consolidate funds of that organization or to fund outlying accounts. It is also used for corporate payments. CCD+ is a CCD entry with one addenda record.





Corporate-to-Corporate Payments—Payments made through the ACH Network by trading partners, normally using the CCD, CCD+ or CTX formats.

Corporate Trade Exchange (CTX)—An automated corporate payment that supports the transfer of funds (debit or credit) within a trading partner relationship in which a full ANSI ASC X12 message or payment-related UN/EDIFACT information is sent with the funds transfer. A CTX transaction can have up to 9,999 addenda records.

Credit Risk—The risk that a party to a transaction cannot provide the necessary good funds, as previously committed by files originated, in order for settlement to take place.

CTX—The Standard Entry Class code used for Corporate Trade Exchange Entries.

Customer-Initiated Entry (CIE)—ACH credit entries initiated by a consumer through direct contact with an Originator such as a bill paying or home banking system.

Data Transmission—The electronic exchange of information between two data processing points (computers).

Death Notification Entry (DNE)—An automated notice of death sent by a federal government agency to a financial institution to notify the financial institution that a recipient of benefit payments from that agency (and possibly other agencies as well as private sector payers) has passed away. An entry to request transfer or removal of funds from an account.

Debit Block—A process used to restrict debits to a demand deposit account.

Destroyed Check Entry (XCK)—This application can be utilized by a collecting institution for the collection of certain checks when those checks have been lost or destroyed or cannot be processed through image exchange.

Direct Deposit via ACH—Deposit of funds to a consumer's account for payroll, travel reimbursement, government benefits, tax and other refunds, and annuities and interest payments.

Direct Payment via ACH—Use of funds for making a payment. Individuals or organizations can send or receive a Direct Payment as an ACH credit or debit. Basically, any ACH payment that is not a Direct Deposit is known as a Direct Payment.

DNE—The Standard Entry Class code used by the Federal Government for Death Notification Entries.

e-Check—A generic term for an ACH debit to a Receiver's account that is originated on the Internet, at the point-of-sale, over the telephone, or by bill payment sent through the mail or dropped in an unattended drop box.

EDI—Acronym for Electronic Data Interchange.

Effective Entry Date—The date on which the Originator requests ACH transactions be posted to the Originator's and Receiver's accounts. The ACH Operator overrides this date if the Effective Entry Date is not a banking day.

EFT—Abbreviation for Electronic Funds Transfer.

Electronic Data Interchange (EDI)—A computer to computer exchange of standard business data according to agreed upon data formats.

Electronic Funds Transfer (EFT)—Any transfer of funds initiated through a terminal, telephone or computer for the purpose of instructing or authorizing a financial institution to debit or credit an account.

Electronic Fund Transfer Act—The law passed by the U.S. Congress in 1978 which set out the rights and obligations of consumers and their financial institutions regarding the use of electronic systems to transfer funds. This act is implemented in the Federal Reserve Bank's Regulation E.

Encryption—A term that refers to a computer-generated algorithm that allows secure communication between parties.

ENR—The Standard Entry Class code used for Automated Enrollment Entries.

Entry—An electronic item representing the transfer of funds in the ACH Network.

Error Resolution Process—Procedures required under Regulation E for resolving a consumer's allegation that entries were improperly charged to the consumer's account.

Exception Item—Any entry that requires special attention or processing, such as return entries, stop payments, notifications of change, dishonored returns, etc.

Existing Relationship—A written agreement that is in place between the Originator and Receiver or when the Receiver has purchased goods or services from the Originator in the past two years.





Exposure Limit—A maximum total limit established by an Originating Depository Financial Institution (ODFI) for each of its Originators beyond which the ODFI is unwilling to process additional ACH files. This limit is established as a fraud and error control under the ODFI's risk management program. The *ACH Rules* require the ODFI to monitor this limit across multiple settlement dates to ensure that a particular Originator does not inadvertently exceed it.

FEDI—Acronym for Financial Electronic Data Interchange.

FI—Abbreviation for Financial Institution. An organization that can originate and receive payments such as a bank, savings and loan and/or credit union.

Field—One or more consecutive character positions within an ACH entry mapped to contain specific information.

File—A group of ACH entries sorted for delivery to an ACH receiving point.

File Control Record—The last record of an ACH file indicating termination of the information within the file.

File Header Record—The first record of an ACH file containing information necessary to route, validate and track ACH items contained within the file.

Financial Electronic Data Interchange (FEDI)—An ACH application that involves the transmission of remittance information in the addenda of an ACH transaction using ANSI standards.

Financial Institution (FI)—An organization that can originate and receive payments such as a bank, savings and loan and credit union.

Funds Availability—The time at which the funds from an electronic funds transfer are made available to the customer.

Go Direct—A campaign sponsored by the U.S. Department of the Treasury and the Federal Reserve Banks to motivate people who receive federal benefit checks (i.e., Social Security, Supplemental Security Income, etc.) to use direct deposit. Benefit recipients can enroll by visiting www.godirect.org.

Green Book—A publication of the U.S. Department of the Treasury, Financial Management Service, that specifies procedures for ACH transactions originated on behalf of the Federal Government. The *Green Book* implements the requirements of Title 31, Code of Federal Regulations, Part 210, concerning government use of the ACH system.

Hash—A mathematical calculation that creates a single number from critical fields in each transaction entry, as a validation against inadvertent alteration of data contents due to hardware failure or program error.

IAT—The Standard Entry Class code for International ACH Transaction.

Individual Identification Number—The number used in an ACH transaction by the Originator to identify the Receiver (e.g., account number with a biller, Social Security number).

Insufficient Funds—The account holder does not have sufficient funds to cover an item presented for payment.

International ACH Transaction (IAT)—A credit or debit ACH entry that is part of a payment transaction involving a financial agency's office (i.e., depository financial institution or business issuing money orders) that is not located in the territorial jurisdiction of the United States.

Internet-Initiated/Mobile Entry (WEB)—A debit entry initiated by an Originator pursuant to an authorization obtained from the Receiver via a secure Internet session. A WEB entry may also be a credit entry initiated by or on behalf of Consumer Account of a Receiver.

Julian Date—A numeric day of the year. For example, January 12 has the Julian date of 012.

KYC—Know Your Customer (or Client)—A term used to describe a set of money laundering control policies and procedures that are used to determine the true identity of a customer/client.

Live Entry—An entry which creates a funds transfer as opposed to a prenotification or other zero-dollar item. Also referred to as a live dollar entry.

Lockbox—A financial institution or Third-Party Processor service that facilitates rapid collection and posting of corporate receivables. Typically, customer payments are mailed to a lockbox or mailbox for collection, sorting, totaling and recording by the bank or provider rather than by the billing organization.

Machine Transfer Entry (MTE)—A credit or debit entry initiated at an electronic terminal as defined in Regulation E to affect a transfer of funds to or from a consumer account.

Magnetic Ink Character Recognition (MICR) Line—See MICR Line.



Mandatory Field—A mandatory field is necessary to ensure the proper routing and/or posting of an ACH entry. Any mandatory field not included in an ACH record will cause that entry, batch or file to be rejected by the ACH Operator before it ever gets sent to the Receiving Depository Financial Institution (RDFI).

MICR Line—The pre-printed bottom line of a paper check which contains the routing number of the drawee and the check number printed in machine-readable magnetic ink. Also referred to as Magnetic Ink Character Recognition Line.

MTE—The Standard Entry Class code for Machine Transfer Entries (MTE).

NACHA—The Electronic Payments Association—The national trade association for electronic payments, which establishes the rules, industry standards and procedures governing the exchange of commercial ACH payments by depository financial institutions.

NACHA Format—The ACH record format specifications described in the *NACHA Operating Rules and Guidelines*, which are the accepted and warranted payment format standards for payments delivered through the ACH Network.

NOC—Acronym for Notification of Change.

Notification of Change (NOC)—A non-dollar entry sent to the Originating Depository Financial Institution (ODFI) by the Receiving Depository Financial Institution (RDFI) that contains information for the correction of erroneous information contained within an ACH entry.

ODFI—Acronym for Originating Depository Financial Institution.

Office of Foreign Assets Control (OFAC)—The agency of the United States Government concerned with monitoring and controlling the assets and financial transactions of entities deemed to be, or acting on behalf of, enemies of the United States.

On-Us Entries—The term that refers to entries within an ACH file that belong to the Originating Depository Financial Institution (ODFI). These entries may be stripped from the file and posted internally before a file is sent to the ACH Operator.

Operational Risk—The risk that a transaction is altered or delayed due to unintentional error in transmission, receiving or processing.

Optional Field—The inclusion or omission of an optional field is at the discretion of the Originator of an ACH transaction. While omission of optional fields will not affect the processing of the item, the Originator must still fill optional fields with blanks or other characters if they do not fill the field with actual information.

Originating Depository Financial Institution (ODFI)—The financial institution that delivers ACH entries directly or indirectly through a third party to its ACH Operator.

Originator—The person or organization who has authorized an Originating Depository Financial Institution (ODFI) to transmit a credit or debit entry to the account of a Receiver with a Receiving Depository Financial Institution (RDFI), or if the Receiver is also the RDFI, to such Receiver. In some cases, the ODFI may also be the Originator.

Participant Directory—A file listing prepared by NACHA of all financial institutions qualified to receive ACH entries. The directory is available from Accuity.

Participating Depository Financial Institution—Any financial institution that is authorized to originate/receive ACH entries.

Payment System—A communication system having the provisions to provide financial settlement information.

Point-of-Purchase Entry (POP)—A single-entry debit initiated by merchants for a purchase made in-person at the point-of-sale or a manned bill payment location, using the Receiver's check as a source document.

Point-of-Sale Entry (POS)—An automated consumer payment format used for point-of-sale transactions originated in a non-shared system in which no agreement other than the *ACH Rules* exist between the Originating Depository Financial Institution (ODFI) and Receiving Depository Financial Institution (RDFI), and in which transactions generally are initiated by use of a merchant issued plastic card.

POP—The Standard Entry Class code used for the creation of Point-of-Purchase ACH entries.

POS—The Standard Entry Class code used for the creation of Point-of-Sale ACH entries.

PPD—The Standard Entry Class code used for Prearranged Payment and Deposit ACH entries.





Prearranged Payment and Deposit (PPD)—An automated consumer payment application, usually in the context of a standing obligation, which credits or debits the consumer's account at their financial institution to satisfy that obligation.

Prenotification (Prenote)—An optional, non-monetary entry that is sent through the ACH Network by an Originator to a Receiving Depository Financial Institution (RDFI) to verify account information. This “test” entry is sent prior to the live entry.

Provisional Settlement—The conditional settlement of debits and credits transferred via ACH. Until declared final by the Federal Reserve Bank, provisional settlement may be reversed.

RCK—The Standard Entry Class code used for the creation of Re-presented Check Entries.

RDFI—Acronym for Receiving Depository Financial Institution.

Receiver—An individual, corporation or other entity that has authorized an Originator to initiate a credit or debit ACH entry to an account held at a Receiving Depository Financial Institution (RDFI).

Receiving ACH Operator—The ACH Operator which passes entries to the Receiving Depository Financial Institution (RDFI).

Receiving Point—The designated organization which receives ACH entries on behalf of a Receiving Depository Financial Institution (RDFI), whether the RDFI itself, a Third-Party Processor or a correspondent. Also referred to as a Third-Party Receiving Point.

Reclamation—A procedure to recover benefit payments from a financial institution that were paid to that financial institution on behalf of a deceased or legally incapacitated beneficiary.

Record—A term that refers to information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form.

Recurring Payment—A payment that occurs at a regular interval for the same amount each time. An example of a recurring payment is a monthly loan or rent payment.

Refused Notification of Change—A Notification of Change entry that has been returned to the Receiving Depository Financial Institution (RDFI) because of erroneous information contained within the original Notification of Change.

Regional Payments Association (RPA)—Provides rules and guidelines for the efficient operation of the ACH Network.

Regulation E—The regulation published by the Federal Reserve Board to implement the Electronic Funds Transfer Act mandating consumer rights and obligations with regard to electronic fund transfers.

Rejected Entry—An entry which has been returned by the ACH Operator because it cannot be processed, usually because of a technical error in the entry, batch or file containing the entry.

Remake—A replacement file generated upon request because an original file was unprocessable for some reason.

Re-presented Check Entry (RCK)—A single-entry debit initiated for the purpose of collecting a paper check that has been returned for insufficient or uncollected funds.

Required Field—The omission of a required field will not cause rejection of an ACH entry at the ACH Operator level, but may cause rejection at the Receiving Depository Financial Institution (RDFI) level. An example of this is the omission of the Receiver's account number.

Reversals—Any ACH entries or files sent within required deadlines to “correct” or reverse previously originated duplicate or erroneous entries or files.

Revocation—The process of canceling a previously authorized ACH transaction. The revocation must be made directly with the Originator of the item in the manner specified in the original authorization form signed by the Receiver, and cannot be done via other parties such as the Receiving Depository Financial Institution (RDFI).

Routing Transit Number (RTN)—A nine-digit number (eight digits plus a check digit) which identifies a specific financial institution. Routing numbers are administered by the Routing Number Administrative Board under the sponsorship of the American Bankers Association and officially maintained and published by Accuity. Also known as an ABA number.

Sending Point—The designated organization that sends ACH entries to the ACH Operator on behalf of an Originating Depository Financial Institution (ODFI), whether the ODFI itself, a Third-Party Processor or a correspondent. Also referred to as a Third-Party Sending Point.

Settlement—A transfer of funds between two parties in cash, negotiable items or on the books of a mutual depository to complete one or more prior transactions and made subject to final accounting. Settlement for the ACH Network occurs through the Federal Reserve Bank, with the exchange of funds occurring on settlement day.



Settlement Account—An account established by a financial institution, either directly with the Federal Reserve Bank or through a correspondent, for the funding of financial transactions.

Settlement Date—The date of which an exchange of funds with respect to an entry or entries is reflected on the books of the Federal Reserve Bank.

Shared Network Transactions (SHR)—An automated consumer payment format used for point-of-sale transactions within a shared network system in which the Originating Depository Financial Institution (ODFI) and Receiving Depository Financial Institution (RDFI) have a common operating agreement and in which the debit card is typically issued by the RDFI.

Similarly Authenticated—Authentication of the Authorizing party by digital signature such as a unique PIN number.

Standard Entry Class (SEC) Code—A three-character code within an ACH Company/Batch Header Record to identify the application type contained within an ACH entry that also determines the rules that apply to that entry (e.g., PPD, CCD, CTX, etc.).

Statement of ACH Activity—An advice prepared by the ACH Operator stating the number of items and dollar value of an ACH file.

Stop Payment Order—A directive by an account holder to its financial institution not to pay a particular ACH transaction or specific check.

Systemic Risk—The possibility that one or more financial institutions will face losses (and/or go out of business) because of the inability of other financial institutions to settle their net debit obligations at the time of settlement.

Taxpayer Identification Number (TIN)—An identification number assigned by the Internal Revenue Service to taxpayers. The TIN for individuals is their Social Security number; for businesses it is their Employer Identification Number.

Tax Payment Convention (TXP)—An industry-wide convention (or agreement) for consistently formatting tax payment information carried in the addenda records attached to ACH tax payments. The TXP format for paying state and local taxes is slightly different from the IRS version.

TEL—The Standard Entry Class code used for the creation of Telephone-Initiated Entries.

Telephone-Initiated Entry (TEL)—A debit entry initiated by an Originator in accordance with the Receiver's oral authorization for the purchase of goods or services over the telephone.

Third-Party Processor—A third party that sends and/or receives ACH files on behalf of the Originator (e.g., payroll processor, bill payment provider).

Third-Party Receiving Point—A third party that receives ACH files on behalf of the Receiving Depository Financial Institution (RDFI). Examples include correspondent banks, corporate credit unions and processors. Also referred to as a Receiving Point.

Third-Party Sender—Originating Depository Financial Institution (ODFI) customers to which Originators outsource payment services, but the ODFI has no direct customer or contractual relationship with the Originator. A Third-Party Sender provides services to the Originator, and, in that capacity, acts as an intermediary between the Originator and ODFI.

Third-Party Sending Point—A third party that sends ACH files on behalf of the Originating Depository Financial Institution (ODFI). Examples include correspondent banks, corporate credit unions and processors. Also referred to as a Sending Point.

Third-Party Service Provider (ACH context)—A third party that processes ACH files and/or entries on behalf of financial institutions and/or Originators. Third-Party Sending Points, Third-Party Receiving Points, Third-Party Processors and Third-Party Senders are subsets of Third-Party Service Providers.

Third-Party Tax Payment Convention (TPP)—A standard ACH process that may be implemented by a state taxing authority to identify the tax payer when a third-party tax payer is involved in remitting the tax payment on behalf of the tax payer.

Trace Number—A 15-digit code uniquely identifying each entry within a batch in an ACH file. The first eight digits of the trace number consists of the routing number (minus the check digit) of the Originating Depository Financial Institution (ODFI).

Transaction Code—The two-digit code in the ACH record that determines whether an entry is a debit or credit to a savings, demand deposit, FI general ledger account or a credit to a loan account. The transaction code also denotes whether the entry is a prenotification or live entry.

Transaction Risk—The possibility that a loss will be sustained due to the incorrect transfer of funds. An example of this would be a transaction which would normally be processed as a wire transfer, with all of the normal associated security procedures for wire transfers, converting to an ACH transaction without having the same security procedures in place.

TRC/TRX—The Standard Entry Class codes used for the creation of ACH entries from truncated checks.

Truncated Check Entry (TRC)—An ACH entry that originally represented a check in which the actual check is safekept by one of the financial institutions in the chain of deposit. The MICR information is then converted to an electronic entry and processed through the ACH Network back to the issuing institution.





Truncated Check Entries Exchange (TRX)—A series of TRC entries put together as addenda records with the payment item representing the total settlement of the TRC entries for that batch.

Uniform Commercial Code Article 4A (UCC 4A)—The portion of the Uniform Commercial Code (UCC) which deals with certain funds transfers including ACH credit transactions not subject to the Electronic Funds Transfer Act or Regulation E. This law outlines the protections and responsibilities given to the parties to wholesale credit transactions and sets the legal standards for commercially reasonable security procedures to be used in conjunction with those transactions.

Unsecured Electronic Network (UEN)—A network, public or private, that is not located entirely within a single, contiguous, physical facility and any part of which that has not implemented security technologies that provide a level of security that, at a minimum, is equivalent to 128-bit RC4 encryption technology. Unencrypted email and an unencrypted website are examples of an Unsecured Electronic Network.

USA PATRIOT Act—The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 was implemented in the aftermath of the events of September 11, 2001 and introduced a plethora of legislative changes which significantly increased the surveillance and investigative powers of law enforcement agencies in the United States.

Warehousing—The electronic storage of debit or credit transactions by a data processing system until their effective date.

WEB—The Standard Entry Class code used for the creation of Internet-Initiated/Mobile Entries.

Wholesale Credit—Under the Uniform Commercial Code Article 4A, wholesale credit transactions are defined (roughly) as electronic credit transactions between commercial entities, such as businesses and their financial institutions. This term includes individual commercial ACH credit transactions and certain payment orders such as wire transfers and internal transfers, and as such, these transactions are subject to the provisions of Article 4A. An ACH file that is composed of individual consumer transactions is considered to be subject to UCC4A as well because, in the aggregate, the entire file is a transaction between a corporate entity and the Originating Depository Financial Institution (ODFI).

Written Statement of Unauthorized Debit—A statement by a consumer declaring that a particular ACH transaction was unauthorized, improper or that authorization for the transaction had been revoked.

XCK—The Standard Entry Class code used for the creation of Destroyed Check Entries.

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