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# NACHA

# Operating Rules & Guidelines

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## Introduction

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The *NACHA Operating Rules & Guidelines – Corporate Edition* is an annual publication produced by NACHA — The Electronic Payments Association. NACHA manages the development, administration, and governance of the ACH Network, the backbone for the electronic movement of money and data. The ACH Network provides a safe, secure, and reliable network for direct account-to-account consumer, business, and government payments. Annually, it facilitates billions of Direct Deposit via ACH and Direct Payment via ACH transactions. Used by all types of financial institutions, the ACH Network is governed by a fair and equitable set of rules that guide risk management and create payment certainty for all participants. As a not-for-profit association, NACHA represents more than 10,000 financial institutions via 17 regional payments associations and direct membership. Through its industry councils and forums, NACHA brings together payments system stakeholders to foster dialogue and innovation to strengthen the ACH Network.

The *NACHA Operating Rules (Rules)* provide users with the legal framework for the ACH Network, while the *NACHA Operating Guidelines (Guidelines)* provide guidance on implementing the *Rules*. This rulebook serves as the definitive source of information governing the exchange and settlement of electronic fund transfers through the ACH Network. In the case of any inconsistency or conflict between the *Rules* and the *Guidelines*, the *NACHA Operating Rules* govern. The *Rules* are organized around the types of participants in the ACH Network and acknowledge the major roles played by originating and receiving financial institutions, therefore dedicating large sections to each of these roles. The *Rules* explicitly recognize that originating financial institutions are the entry points into the ACH Network for corporate users and Third Parties, and that these financial institutions are responsible for those parties' compliance with the *Rules*.

## HOW TO USE THIS BOOK

This publication is divided into two sections, the *NACHA Operating Rules* and the *NACHA Operating Guidelines – Corporate Edition*.

The *NACHA Operating Rules* provides the legal foundation for the ACH Network. The introductory pages of this section contain the following material.

- **NACHA Board of Directors' Policy Statements:** This section provides guidance from the Board of Directors on topics of importance to the ACH Network.
  - **Formal Rules Interpretations:** This section contains formal interpretations of the *NACHA Operating Rules*, as approved and issued by the NACHA Board of Directors. Interpretations contained in this section are as binding as the *NACHA Operating Rules* themselves and have been issued to clarify the provisions of the *NACHA Operating Rules* or to provide guidance about whether a particular use or application is consistent with the *Rules*. Such interpretations may also have been issued for other purposes, as deemed appropriate by the Board.
  - **Network Administration Fees:** This section details the amounts of both the annual and per-entry fees, as determined from time to time by the NACHA Board of Directors..
  - **Revisions to the *NACHA Operating Rules & Guidelines*:** This section summarizes amendments to the *NACHA Operating Rules* that have been approved by the NACHA voting membership during the last year. Read this section first to get an overview of recent developments and their impact on operations.
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- Supplement #2-2012 provides information on the newest ACH rules changes, which will take effect in 2013. These changes were approved just prior to publication and are not included in the pages of the *NACHA Operating Rules* and *NACHA Operating Guidelines – Corporate Edition* sections.

The body of the *NACHA Operating Rules* contains language relating to both current rules and rule changes that will take effect later in the year. This edition of the *Rules* contains current rule language, followed immediately by the new rule text, which is in italics and highlighted. Rule changes within the text are indicated by a marker in the left margin, with approval and effective dates for those changes noted at the bottom of the page.

Example:

### SUBSECTION 2.17.2.2 ODFI Reduction of Return Rate

The ODFI must reduce the Originator's or Third-Party Sender's return rate for unauthorized Entries to a rate below one percent within sixty days after receipt of the National Association's written request for information and maintain that return rate below one percent for an additional one hundred eighty days.

- *The ODFI must reduce the Originator's or Third-Party Sender's return rate for unauthorized Entries to a rate below one percent within thirty days after receipt of the National Association's written request for information and maintain that return rate below one percent for an additional one hundred eighty days.*

Pages in the *NACHA Operating Rules* section are numbered sequentially beginning with the prefix "OR."

The *NACHA Operating Guidelines – Corporate Edition* includes excerpts from the *NACHA Operating Guidelines* that are important to corporations. Refer to the *Guidelines* for originator roles and responsibilities within the ACH Network and an overview of Standard Entry Class Codes. In addition, the *NACHA Operating Guidelines – Corporate Edition* offers details on the legal framework of the *Rules*, Third-Party Service Providers, OFAC Compliance, and a brief history of the ACH Network.

Pages in the *NACHA Operating Guidelines – Corporate Edition* are numbered sequentially beginning with the prefix "OG."

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# *NACHA Operating Rules*

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# NACHA Board of Directors Policy Statements

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## **NACHA Board of Directors Policy Statement on Data Security**

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*The following Data Security Policy Statement was originally adopted by the Board of Directors on November 13, 1986, and revised on June 9, 2010.*

NACHA strongly supports the efforts of ACH Network participants to implement state-of-the-art data security techniques. On an ongoing basis, ACH Network participants should stay abreast of new data security techniques and their applicability to the ACH Network to ensure a high level of quality and reliability to all users of the ACH Network.

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## **NACHA Board of Directors Policy Statement on Fraud Prevention and Risk Management Initiatives**

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*The following Policy Statement on Fraud Prevention and Risk Management Initiatives was adopted by the Board of Directors on August 22, 2002.*

Fraud and various forms of financial abuse have found their way into every facet of the U.S. payment systems. The NACHA Board believes that the Automated Clearing House Network must maintain the highest standards of fraud prevention to retain the integrity of the payment mechanism and the trust and confidence of its users. Therefore, the NACHA Board resolves and strongly urges that all participants implement adequate control systems to detect and prevent fraud and abusive financial transactions.

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## **NACHA Board of Directors Interim Policy Statement on ACH Data Breach Notification Requirements**

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*The following Interim Policy Statement on ACH Data Breach Notification Requirements was adopted by the Board of Directors on September 28, 2007.*

### **POLICY SUMMARY**

This interim policy concerns the timely and accurate notification of NACHA and affected RDFIs when ODFIs or their Originators or third-party service providers know or reasonably suspect (i) that Consumer-Level ACH Data (defined below) has been lost, stolen or otherwise subject to unauthorized access and (ii) that misuse of such information has occurred or is reasonably possible. This interim policy is not intended to address data comparable to that contained in ACH files that is obtained from other sources, such as check collection.

This interim policy is effective September 28, 2007. Compliance with this interim policy will not be enforced as a rule until NACHA has adopted a formal rule regarding data breaches; however, the Board expects that institutions will take advantage of the notification procedures described here in order to better manage the risk arising out of data breaches that involve Consumer-Level ACH Data. This interim policy does not supersede any other data breach notification requirements to which ACH Network participants may be subject under applicable law or regulation.

### **DATA BREACH EVENT**

For purposes of this interim policy, a “data breach” is defined as the loss, theft or unauthorized access of Consumer-Level ACH Data by or from any ODFI or Originator or any of their respective third-party service providers using the ACH Network, or any affiliate of the foregoing under circumstances indicating that the misuse of such information has occurred or is reasonably possible.

### **CONSUMER-LEVEL ACH DATA**

With respect to this interim policy, Consumer-Level ACH Data means the following information with respect to consumer customers of an RDFI gathered by an ODFI or Originator or any of their respective third-party service providers for the purpose of initiating ACH transactions:

- (1) a bank account number together with a bank routing number; or
- (2) the customer’s name together with the customer’s social security number

This policy does not apply to information that is received for any other purpose, such as bank routing numbers and account numbers that are used in check processing. Consumer-Level ACH Data that are created from checks in connection with ACH check conversion or truncation programs are covered by this interim policy.

### **PREVENTION**

Each ODFI is responsible for ensuring that it, its Originators, and their respective third party service providers adopt and implement commercially reasonable policies, procedures and systems to receive, store, transmit and destroy Consumer-Level ACH Data in a secure manner and to protect against data breaches.



## DETECTION, INVESTIGATION AND ESCALATION

Each ODFI is responsible for ensuring that it, its Originators, and their respective Third Party Service Providers implement commercially reasonable policies, procedures and systems to detect the occurrence of a data breach within their respective organizations.

Those policies and procedures should include escalation of any breach to appropriate personnel within the organization in a timely fashion, and in the case of Originators and third party service providers, prompt notice to the designated security contact at the ODFI.

If a data breach is known or suspected, the ODFI and its affected Originator and/or third party service provider should immediately commence and diligently pursue an investigation of the circumstances to determine (i) if a data breach has actually occurred, (ii) the scope of the data breach, including the type and amount of data affected, (iii) the risk that the affected data will be misused, and (iv) what steps are necessary to prevent further unauthorized access to Consumer-Level ACH Data.

## NOTIFICATION OF NACHA AND RDFIS

If an ODFI knows or reasonably suspects (i) that Consumer-Level ACH Data in its control or the control of one of its Originators or third party services providers has been lost, stolen or otherwise subject to unauthorized access and (ii) that misuse of such information has occurred or is reasonably possible, the ODFI should notify the NACHA security contact.<sup>1</sup> The ODFI's notification to NACHA must provide the following findings concerning the data breach incident:

1. Approximate cause(s) of the breach incident
2. Approximate date of the breach incident
3. Approximate size of the affected population (victims)
4. The type of data exposed
5. The routing and transit numbers (RTNs) of the affected RDFI accounts
6. The ODFI's designated security contact for inquiries from RDFIs
7. Organizations that are involved in the breach (this information may be limited to NACHA at the request of the ODFI).

Other relevant findings that may be included in the notification are as follows:<sup>2</sup>

8. Any mitigating factors
9. Any other information the ODFI believes would be relevant to an RDFI's evaluation of the data breach and response to it.

NACHA may provide a standardized form that may be used for purposes of notification in accordance with this policy. If the notice to NACHA is returned undelivered, the ODFI must take reasonable steps to correct the address and resend promptly.

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<sup>1</sup> The ODFI, Originator and third-party processor must separately determine whether they have any consumer notification requirements under applicable law.

<sup>2</sup> While these additional findings will be helpful for disclosure purposes, their determination should not delay the required notification.

The ODFI also should take reasonable steps to notify RDFIs whose accounts may be affected, which may include, at the option of the ODFI, directly contacting each RDFI, or using a process designated by NACHA to help enable such contacts.

### **TIMEFRAME TO NOTIFY**

The ODFI must take all appropriate steps to provide initial notice to NACHA and each affected RDFI as soon as reasonably possible. ODFIs should not wait to complete their investigation before providing initial notice if sufficient information has been elicited (i) to conclude that a data breach likely occurred and that misuse of Consumer-Level ACH Data is reasonably possible and (ii) to allow RDFIs to take meaningful action in response to such notice.

Notice may be delayed or limited if disclosure of the information to ACH Network participants would impede an on-going criminal investigation.

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## **NACHA Board Of Directors Policy Statement on Use of a Terminated Originator Database**

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*The following Policy Statement on Use of a Terminated Originator Database was adopted by the Board of Directors on October 21, 2010.*

### **POLICY SUMMARY**

This policy addresses the importance of Originating Depository Financial Institution (ODFI) use of a Terminated Originator Database as a component of an ODFI's due diligence and risk management processes, which are essential to the maintenance of a high quality ACH Network. A Terminated Originator Database provides a mechanism for ODFIs to share information regarding the circumstances under which ACH processing for specific Originators or Third-Party Senders has been terminated, thus enabling ODFIs to focus due diligence efforts on Originators and Third-Party Senders whose history may warrant further review. A Terminated Originator Database can provide an additional tool for ODFIs to use to supplement their current processes and procedures for evaluating new Originators and Third-Party Senders and for ongoing monitoring of Originators and Third-Party Senders. In addition, because the utility of a Terminated Originator Database for all ODFIs grows exponentially with the number of ODFIs contributing to the Database, the Board of Directors is recommending that ODFIs use NACHA's preferred Terminated Originator Database provider. While ODFIs are free to choose the Database or Databases that they use and to which they contribute, the more institutions that use the preferred Terminated Originator Database provider, the more useful it will be for each participating ODFI.

This policy is effective March 1, 2011. The Board of Directors encourages ODFIs to use a Terminated Originator Database in the following ways: 1) ODFIs that have terminated an Originator or Third-Party Sender for cause should populate the Database with information from their experiences, 2) to help focus their diligence processes, ODFIs should access the Database prior to onboarding new Originators and Third-Party Senders to learn about other ODFIs' experiences with this company, and 3) ODFIs should periodically check the Database for their current Originators and Third-Party Senders as these entities might be originating through multiple ODFIs and termination by another ODFI may be indicative of issues worthy of further review.

### **TERMINATED ORIGINATOR DATABASE AS A RISK MANAGEMENT TOOL**

While ODFIs may individually use good risk management tools to evaluate new ACH origination clients, ODFIs may be unaware of an Originator's or Third-Party Sender's past relationships with other ODFIs. Use of a Terminated Originator Database will allow ODFIs to gain the benefit of other financial institutions' experiences. This tool will reduce the likelihood that low quality Originators and Third-Party Senders can mask problems from a potential new ODFI and easily be able to move from ODFI to ODFI.

Nonetheless, the Terminated Originator Database is not a list of prohibited or disapproved Originators and Third-Party Senders. Each ODFI should utilize the information they obtain from the Database as part of their effort to evaluate new and current Originator or Third-Party Sender customers. ODFIs should independently perform due diligence to determine how this information will factor into their decision-making and monitoring processes.

The value of a Terminated Originator Database is dependent on data being contributed by ODFIs of all sizes and types. ODFIs should not only consult a Terminated Originator Database, but also should contribute their own data in order to provide the most robust service for the benefit of all participating ODFIs and the ACH Network. To enable the most effective information sharing in this regard, the Board

of Directors recommends a preferred Terminated Originator Database provider. ODFIs are free to choose the Database(s) in which they participate, but ODFIs should consider, at a minimum, contributing to and consulting the preferred Database in order to take advantage of the synergies provided by that centralized facility.

## **POPULATION AND QUERY OF A TERMINATED ORIGINATOR DATABASE**

ODFIs should utilize the Terminated Originator Database in the following ways:

- ODFIs that terminate an Originator or Third-Party Sender for cause should populate the Terminated Originator Database with information that allows identification of the Originator or Third-Party Sender to other ODFIs.
- ODFIs should access the Terminated Originator Database to learn about other ODFIs' experiences with Originators and Third-Party Senders. This information sharing will help ODFIs, as gatekeepers to the Network, to have a more complete risk profile when determining whether or not to begin origination for an Originator or Third-Party Sender.
- ODFIs should periodically access the Terminated Originator Database as part of their ongoing monitoring efforts for current Originators and Third-Party Senders to determine whether termination of other ODFI relationships raises issues warranting further review.

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## **NACHA Board of Directors Policy Statement on the Importance of Sound Business Practices to Mitigate Corporate Account Takeover**

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*The following Policy Statement on the Importance of Sound Business Practices to Mitigate Corporate Account Takeover was adopted by the Board of Directors on October 21, 2010.*

### **POLICY SUMMARY**

Risks to payment networks are ever-changing. Cyber-thieves are becoming increasingly sophisticated at exploiting vulnerabilities in corporate systems in order to commit fraud. Corporate Account Takeover, a type of corporate identity theft in which cyber-thieves steal a business' valid online banking credentials, has recently been on the rise and represents a risk to ACH Network participants even though the roots of this criminal activity are not in banking systems themselves. Accordingly, this policy statement of the NACHA Board of Directors addresses the importance of Originating Depository Financial Institutions (ODFIs) utilizing sound business practices to prevent and mitigate the risk of Corporate Account Takeover within the ACH Network.

### **POLICY STATEMENT**

Corporate Account Takeover is particularly pernicious because once a cyber-thief obtains a company's valid online banking credentials; the thief can use those credentials in a variety of ways. The thief may initiate funds transfers out of the compromised business' account by ACH or wire transfer to the bank account of associates within the U.S. or directly overseas. In some cases, the perpetrator may also be able to gain access to and review the business' account details, such as account balances, activities and patterns, enabling the perpetrator to mimic the legitimate users and initiate transactions undetected.

Cyber-thieves employ various methods to obtain access to the banking credentials from legitimate businesses, including mimicking a legitimate institution's website, using malware and viruses to compromise the legitimate business' system or even using social engineering to defraud employees into revealing security credentials or other sensitive data. For example, corporate systems may be compromised by (1) an infected document attached to an e-mail, (2) a link within an e-mail that connects to an infected website, (3) employees visiting legitimate websites — especially social networking sites — and clicking on the infected documents, videos or photos posted there, or (4) an employee using a flash drive that was infected by another computer. In each case, the infected system is then exploited to obtain legitimate security credentials that can be used to access a company's corporate accounts.

ODFIs should vigilantly and proactively protect against this type of fraud in various ways, including implementing systems designed to prevent and detect attempts to access a business' banking credentials and actual unauthorized access to the business' banking accounts, and by keeping their own customers informed about the importance of implementing their own systems and sound business practices to protect themselves. Indeed, keeping customers informed of evolving risks can be an effective method to combat cyber-thieves before they get access to the banking system. The types and significance of the risk to each ODFI will vary depending on the financial institution, its business and its systems and processes.

It is essential that ODFIs and other ACH participants, such as Originators and Third-Party Senders, take a risk-based approach tailored to their individual characteristics and their customers to avoid losses and liability for themselves and other ACH participants. Accordingly, each ODFI should establish and implement mechanisms aimed to prevent, detect and mitigate risk associated with Corporate Account Takeover, and work with their customers to also take such a risk based approach — thus acknowledging

the important role of both the FI and the customer in preventing and detecting Corporate Account Takeover. Each ODFI should periodically review and update such mechanisms and customer guidance in response to developments in the methods used by cyber-thieves to perpetrate Corporate Account Takeover and in the methods used to prevent, detect and mitigate risk associated with such fraud.





# Formal Interpretations of the *NACHA Operating Rules*

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## Proper Use of Standard Entry Class Codes for Check Conversion Entries

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### SUMMARY

NACHA has been requested to issue a formal interpretation of the *NACHA Operating Rules (Rules)* with respect to the practice of using the Prearranged Payment and Deposit (“PPD”) format for the conversion and electronic collection of consumer checks collected at the point of purchase. This interpretation clarifies that the POP entry and the BOC entry, and the POP Standard Entry Class and the BOC Standard Entry Class (“SEC”) Codes, are the exclusive entry and class codes for ACH entries based on the conversion of checks received at the point of purchase.<sup>1</sup> The PPD entry and format may not be used for this purpose.

### ISSUE

NACHA has been asked whether the practice of using a one-time PPD entry for the conversion of a check received at the point of purchase rather than processing such a transaction as a POP entry (which was specifically designed for electronic check conversion) is consistent with the *Rules*. NACHA understands that under this practice a retailer receives a consumer’s check at the point of purchase and stamps the back of the check with authorization language for an electronic debit. The consumer then signs the authorization on the back of the check. The retailer later processes the check, captures the MICR information from the check, and originates a PPD debit entry for the amount of the check. The retailer may also provide the consumer with a copy of the authorization language on the consumer’s receipt or on another document.

### NACHA OPERATING RULES

#### **POP Entries**

A POP entry is defined as:

a Single Entry debit initiated by an Originator to an account of the Receiver based on an Eligible Source Document provided to the Originator by the Receiver at the point-of-purchase or manned bill payment location.<sup>2</sup>

A POP entry is initiated by an Originator based on a written authorization and account information drawn from a check obtained from a consumer at the point of purchase. The check, which is voided by the merchant and returned to the consumer at the point of purchase, is used to capture the consumer’s routing number, account number, and check serial number, which are used to generate the ACH debit entry to the consumer’s account.

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<sup>1</sup> The Rules for BOC entries were effective as of March 16, 2007.

<sup>2</sup> 2013 NACHA Operating Rules § 8.64 (“POP entry”)

POP entries are subject to special requirements under the *Rules*. For example, authorizations for POP entries do not need to refer to an ability to revoke the entry, because revocation would not be practical for POP transactions where the customer obtains the goods or services and then leaves the point of purchase.<sup>3</sup> In addition POP entries are subject to requirements as to the types of checks that can be converted to POP entries,<sup>4</sup> the capture of MICR information,<sup>5</sup> and receipts.<sup>6</sup> The *Rules* require that the POP entry contain specific information, including, but not limited to, the Receiver's bank routing number, account number, serial number of the consumer's source document, and location (city and state) of the electronic terminal used for the transaction.<sup>7</sup>

### **BOC Entries<sup>8</sup>**

A BOC entry is defined as:

a Single Entry debit initiated by an Originator to an account of a Receiver based on an Eligible Source Document provided to the Originator by the Receiver at the point of purchase or at a manned bill payment location for subsequent conversion during back-office processing.<sup>9</sup>

A BOC entry is initiated based on (1) notice posted at the point of purchase or manned bill payment location, informing the Receiver that the check may be converted to an ACH transaction during back office processing and collected electronically as an ACH debit, and (2) payment information (routing number, account number, check serial number, and dollar amount of the transaction) obtained from a check obtained from the Receiver at the point of purchase.

BOC entries are subject to special requirements under the *Rules* related to the types of checks that can be converted<sup>10</sup>, notice and the provision of a copy of such notice language to the Receiver<sup>11</sup>, the capture of MICR information<sup>12</sup>, verification of the identities of both Originator/Third-Party Sender and Receiver<sup>13</sup>, documentation on Originators<sup>14</sup>, maintenance of a customer service telephone number<sup>15</sup>, and source document copy, presentation, and secure storage requirements<sup>16</sup>. The *Rules* require that the BOC entry contain specific information, including, but not limited to, the Receiver's bank routing number, account number, source document check serial number, and dollar amount of the check.

### **PPD Entries**

A PPD Entry is defined as

a credit or debit Entry initiated by an Organization to a Consumer Account of a Receiver based on a standing or a Single Entry authorization from the Receiver.<sup>17</sup>

Prior to the origination of a PPD entry to the consumer's account, the consumer must have authorized the Originator to initiate the entry to such an account. This authorization must be in writing and signed or similarly authenticated by the consumer, and the consumer must be provided with an electronic or

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<sup>3</sup> *Id.* at § 2.5.10.2

<sup>4</sup> *Id.* at § 8.32

<sup>5</sup> *Id.* at § 2.5.10.4

<sup>6</sup> *Id.* at § 2.5.10.5

<sup>7</sup> *Id.* at Appendix Three, subpart 3.1.15

<sup>8</sup> *Id.* at § 8.11 ("BOC entry")

<sup>9</sup> *Id.* at § 8.11

<sup>10</sup> *Id.* at § 8.32

<sup>11</sup> *Id.* at § 2.5.2.2

<sup>12</sup> *Id.* at § 2.5.2.4

<sup>13</sup> *Id.* at § 2.5.2.5

<sup>14</sup> *Id.* at § 2.5.2.5

<sup>15</sup> *Id.* at § 2.5.2.5

<sup>16</sup> *Id.* at § 2.5.2.5

<sup>17</sup> *Id.* at § 8.66

paper copy of the authorization. The authorization must be readily identifiable as an authorization and must clearly and conspicuously state its terms, as well as indicate that the Receiver may revoke the authorization by notifying the Originator in the manner specified in the authorization. The authorization process must evidence both the consumer's identity and his or her assent to the transaction. Further, the Rules require that the PPD entry contain certain information, including, but not limited to, the Receiver's bank routing number and account number.<sup>18</sup> In addition, the consumer must be provided an electronic or paper copy of the authorization.<sup>19</sup>

### **Rules Analysis**

The express language of the *Rules* strongly suggests that POP and BOC entries are intended to be the exclusive entries and class codes for ACH entries based on the conversion of checks received at the point of purchase. The special requirements for POP and BOC entries would be largely unnecessary if the *Rules* were interpreted to provide for POP and BOC transactions to be conducted as PPD entries without compliance with POP and BOC requirements. Nevertheless, it could be argued that the fact that the definition of PPD entry excludes MTE and POS entries, but does not exclude POP and BOC entries, means that some, or all, transactions that meet the definition of POP and BOC entries may also be processed as PPD entries. Similarly, it could be argued that because, for example, the rules for POP and BOC entries do not require the Originator to provide the Receiver with a copy of the authorization at the point of sale, the requirements of POP and BOC entries and PPD entries are alternative ways of accomplishing the same general type of transaction.

Because the express language of the *Rules* does not conclusively resolve whether or not POP and BOC entries are the exclusive means of conducting certain transactions, NACHA is issuing this interpretation under Section 1.3.3 of the *Rules*.

### **Interpretation**

NACHA intended the rules for POP entries to be the exclusive entry and class code for ACH entries based on the conversion of checks received at the point of purchase. Recognizing the importance of providing a legal framework within the *Rules* that would protect ACH participants with regard to the initiation of point-of-purchase entries, in March 1999, the NACHA Voting Membership approved an interim rule designed to expand the definition of the PPD entry format to allow its use in initiating one-time ACH debit entries for purchases made at the point of purchase. This interim rule was, however, only intended to be a one-year interim rule to permit the implementation of a newly created Standard Entry Class Code for point of purchase transactions-the POP entry. Subsequently, in September 2000, the POP SEC Code and the requirements for POP entries became effective and superseded the use of the PPD interim rule for point-of-purchase entries.<sup>20</sup> As of March 16, 2007, an additional application (BOC) for the conversion of checks presented at the point of purchase was adopted with a legal framework and technical requirements designed to protect ACH participants with regard to the initiation of check conversion entries.

The rules for POP and BOC entries establish the legal framework and requirements that the NACHA Voting Membership determined were needed to protect ACH participants with respect to check conversion transactions initiated at the point of purchase. The rules for POP and BOC entries also establish requirements for the provision of information on the Receiver's bank account statement to enable the Receiver to identify the converted check and the location where the payment was made. The POP and BOC applications were specifically designed to provide Receiver protections and requirements unique to this type of conversion activity.

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<sup>18</sup> *Id.* at Appendix Three, subpart 3.1.17

<sup>19</sup> *Id.* at § 2.3.2.2

<sup>20</sup> 2000 NACHA Operating Rules, page R2

These unique requirements were intended to mitigate risk and reduce customer service problems. These requirements do not apply to PPD entries and therefore the use of PPD entries for conversion of checks received at the point of sale could result in more risk to ACH participants and customer service issues. For example, the PPD format cannot accommodate the inclusion of the check serial number from the Receiver's source document. Similarly, the rules for PPD entries do not require the placement of this information on the Receiver's bank account statement.

## CONCLUSION

The practice of receiving checks at the point of purchase and then converting those checks to one-time PPD entries is inconsistent with the exclusive application of POP entries to such payments under the *Rules*. The rules for POP entries and the POP SEC Code and BOC entries and the BOC SEC Code are the only rules, and the only SEC Codes, that provide for the conversion of checks received in-person. **The use of any other SEC Codes for this purpose is not permissible under the *Rules*.**

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## Proper Use of SEC Codes; Aggregation of Transactions

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### SUMMARY

This formal interpretation of the NACHA Rules addresses (i) when it is appropriate to aggregate transactions into a single ACH entry, (ii) what is the most appropriate SEC code to use for specific transaction types given the method used to obtain consumer authorization, the manner in which an ACH product is used by the consumer and the information needed by RDFIs and NACHA to manage risk and, in the case of RDFIs, to manage customer relationships, and (iii) what party should be identified in the “Company Name” field of the ACH entry. The NACHA Board has determined that (i) transactions may not be aggregated under the POS or MTE codes, but may be aggregated under the WEB or PPD codes if the transactions are accumulated for more than fourteen (14) days, (ii) if either the POS or MTE code may apply to a transaction that otherwise could be characterized as WEB or PPD (including when a Receiver uses his or her mobile device to initiate a transaction at the point-of-sale), the POS or MTE code, respectively, must be used, and (iii) the payee of the underlying transaction being settled through the ACH should be identified in the “Company Name” field. This interpretation does not address the accumulation by a single merchant of multiple purchases at that merchant (e.g., weekly billing of music purchases at an internet music site). That is a separate issue that will be separately considered by NACHA.

### ISSUE

Some providers of ACH services seek to aggregate transactions that occur during a single day, or over multiple days, into a single ACH entry. This aggregation may be attempted across multiple merchants and multiple transactions types (e.g., transactions at retail locations might be combined with ATM withdrawals). Accordingly, the issue has arisen whether such aggregation is permissible under the Rules, and if so, how such transactions should be handled within the existing Rules. As a corollary, if more than one of the POS, MTE, WEB or PPD codes arguably might apply on their face, which code should be used in which circumstances? Moreover, since the payee of such transactions may be different from the Originator who obtains the Recipient’s authorization, which name should be included in the “Company Name” field of the ACH message?

### INTERPRETATION

The NACHA Rules do not permit aggregation of transactions under the POS or MTE codes. Each time an ACH-linked card or other similar ACH service that can be used at multiple payees is used by a consumer at an electronic terminal in a retail location in the case of the POS code, or at an ATM in the case of the MTE code, the ODFI must submit a separate ACH entry that is properly formatted using the POS or MTE SEC codes, respectively. Multiple transactions at one or more electronic terminals may not be aggregated in a single POS or MTE entry.

Transactions may be aggregated under the WEB or PPD codes only in the following circumstances. The PPD code may be used for a properly authorized ACH transaction that represents a single payment on a separate account regardless of whether there have been multiple charges by the consumer to that account (i.e., for a bill payment), provided that each such payment on account covers at least fourteen (14) days of transactions. If the original enrollment for an ACH service was performed on the internet, the WEB code may be used for a properly authorized ACH transaction that represents a single payment on a separate account regardless of whether there have been multiple charges by the consumer to that account (i.e., for a bill payment), provided that each such payment on account covers at least fourteen (14) days of transactions. This fourteen (14) day window provides a clear dividing line between payments on an

account, such as monthly bill payments (e.g., the monthly payment of a charge card bill), and transactions that are effectively pass-through debits to a deposit account at an RDFI.

If a consumer has an account that ordinarily is billed in periods of more than fourteen (14) days, and the consumer separately authorizes an individual payment on account for a period of less than fourteen days (for example, by logging on to the biller's website to make an individual interim payment prior to the close of a monthly billing cycle), the ODFI may process such transaction as a single PPD or WEB transaction, depending on whether the original enrollment for the ACH service was obtained on the internet. A separate authorization of payment in this context must be a specific authorization of the specific total amount to be debited at that time, and a separate specific authorization must be obtained from the consumer each time another payment of fourteen (14) days or less is made. For clarity, the use of a debit card at the point-of-sale does not constitute a separate specific authorization for this purpose.

Furthermore, the SEC Code Allocation Chart attached hereto provides guidance on the appropriate SEC Code to use in connection with transactions based on how an ACH service is being used and how the original authorization for that service was obtained. For example, if an Originator provides a debit card to consumers that can be used for a variety of transactions pursuant to a written, standing authorization to debit the amount of those transactions to a deposit account at an RDFI, the transactions should be handled as follows: Each use of the debit card at a point-of-sale terminal should be treated as a separate POS transaction; each use of the debit card at an ATM should be treated as an MTE transaction; and each use of the debit card to make purchases on the internet should be treated as a PPD transaction. By contrast, if the Originator obtains the consumer's original standing authorization for the same product via the internet, the transactions should be handled as follows: Each use of the debit card at a point-of-sale terminal still should be treated as a separate POS transaction; each use of the debit card at an ATM still should be treated as an MTE transaction; but each use of the debit card to make purchases on the internet should be treated as a WEB transaction. As indicated above, the Originator may not aggregate multiple transactions across multiple payees. However, if the "account" offered by Originator is only billed to the consumer for periods of more than fourteen (14) days, then those transactions may be processed as a single bill payment transaction under the PPD or WEB code, respectively, for the total amount owing at the end of such period.

Finally, in order to provide appropriate information to the RDFI and NACHA, the party identified in the "Company Name" field of the ACH Entry in each of these cases should be the party to which the funds ultimately will be transferred. For example, in the card product above, the ultimate payee is the merchant or owner of the ATM where the card is used, not the Originator that issues the card. Similarly, in a bill payment service, the ultimate payee is the biller, not the provider of the bill payment service.

## **EXPLANATION OF SEC CODE ALLOCATIONS**

The following articulates the basis for the allocations set forth in the SEC Code Allocation Chart ("Chart") that accompanies the Proper Use of SEC Codes; Aggregation of Transactions Rules Interpretation ("Interpretation"). As noted, the Chart addresses only products that can be used on a recurring basis rather than individual entry transactions, which are not at issue in this Interpretation.

The first row of the Chart addresses products that are physically used at the point-of-sale for retail purchases. Box A addresses products for which both enrollment and use occurs at the point-of-sale. This is the quintessential transaction for which the POS code was originally developed.

Box B addresses products for which the original enrollment occurred on the internet, but which are then used at the physical point-of-sale. The Interpretation requires that such transactions be treated as POS because this more specific SEC code is more closely related to the nature of the transaction being initiated by the consumer at the time of use of the card. As noted above, use of this code results in the delivery

of appropriate information to RDFIs to enable risk management and customer service, and also enables NACHA to more effectively conduct its risk management services for the ACH Network. Accordingly, the POS code should be used when a Receiver uses his or her mobile device enabled with near-field communication or similar technologies to authorize Entries at the point-of-sale, even if the WEB code also could technically apply.

Box C addresses products for which enrollment occurred over the telephone, e.g., via the entry of a code through a VRU, but which are then used at the physical point-of-sale. As with the other boxes in this row, the POS code is the most directly relevant code, enabling the communication of the individual transaction data to the RDFI.

Boxes D, E and F address ACH products that are used on the internet. When an ODFI (or Originator) has a pre-existing standing authorization obtained through another channel (e.g., a physically signed authorization for insurance payments), the fact that the customer later uses the ODFI's or Originator's internet service to confirm an individual payment does not require conversion of the transaction to a WEB code. Many of the risks associated with internet-based transmission of the original account information are not present in such circumstances.

Boxes G, H and I address the use of ACH products at the ATM, and raise issues very similar to the boxes in the first row of the chart. In short, in order to manage risks associated with access to their accounts at ATMs, RDFIs need to have the information communicated through the MTE transaction code, regardless of how the consumer originally enrolled in the service.

Boxes J, K and L address the authorization of ACH transactions over the phone pursuant to a previously obtained standing ACH authorization or a one-time confirmation of a previously provided written authorization form.

Similarly, the final row of the chart addresses recurring debits for which enrollment occurred via hard copy, via the internet or via the telephone. As with the preceding row, the appropriate codes for transactions relying on hard copy or internet enrollment (including VRU-based acceptance of a hard copy authorization form) are the general codes that apply based on the form of enrollment for the service — WEB for internet-based enrollment, and PPD for all others. If the Originator complies with the Rules for origination of recurring TEL transactions in connection to a telephone-based authorization (including recorded phone line and written confirmation), the TEL code applies.



## NACHA SEC CODE GUIDANCE FOR RECURRING OR MULTIPLE DEBITS

TRANSACTION INITIATION METHOD	ENROLLMENT/AUTHORIZATION METHOD		
	PHYSICAL ENROLLMENT	INTERNET ENROLLMENT	TELEPHONE ENROLLMENT
<b>Use at Point-of-Sale</b>	<p>Example: Customer enrolls at a merchant store, a bank branch or in response to a mail solicitation for an ACH-based debit card, and uses the card at a POS terminal Proper SEC Code: <b>POS</b></p> <p style="text-align: right;"><i>Box A</i></p>	<p>Example: Customer enrolls at a merchant or bank web site for an ACH-based debit card, and uses the card at a POS terminal Customer enrolls via a mobile device for an ACH-based near-field communication debit service on the device, and uses the mobile device at a POS terminal Proper SEC Code: <b>POS</b></p> <p style="text-align: right;"><i>Box B</i></p>	<p>Example: Customer enrolls through a merchant or bank telephone system for an ACH-based debit card, and uses the card at a POS terminal Proper SEC Code: <b>POS</b></p> <p style="text-align: right;"><i>Box C</i></p>
<b>Use on the Internet</b>	<p>Example: Customer opens account at a bank branch and authorizes debits to transfer funds into the account, and initiates such debits via the bank's web site Customer enrolls in biller's or service provider's bill payment service via mail, and initiates individual bill payments at the biller's or service provider's web site Customer enrolls at a merchant store, a bank branch or in response to a mail solicitation for an ACH-based debit card, and uses the card to make a purchase at a web site Proper SEC Code: <b>PPD</b></p> <p style="text-align: right;"><i>Box D</i></p>	<p>Example: Customer executes at a bank's web site an authorization to transfer funds into a savings account, and initiates each transfer via the bank's web site Customer enrolls at a biller's or service provider's web site to pay bills, and initiates individual bill payments at the web site Customer enrolls at a merchant or bank website for an ACH-based debit card, and uses the card to make a purchase at a web site Customer enrolls via a mobile device in his/her biller's mobile bill presentment and payment service, and initiates individual bill payments via the mobile device Proper SEC Code: <b>WEB</b></p> <p style="text-align: right;"><i>Box E</i></p>	<p>Example: Customer enrolls through a biller's or service provider's telephone system to pay bills, and initiates individual bill payments at the biller's or service provider's web site Customer enrolls through a merchant or bank telephone system for an ACH-based debit card, and uses the card to make a purchase at a web site Proper SEC Code: <b>PPD</b></p> <p style="text-align: right;"><i>Box F</i></p>
<b>Use at ATM</b>	<p>Example: Customer enrolls at a merchant store, a bank branch or in response to a mail solicitation for an ACH-based debit card, and uses the card at an ATM to withdraw cash Proper SEC Code: <b>MTE</b></p> <p style="text-align: right;"><i>Box G</i></p>	<p>Example: Customer enrolls at a merchant or bank web site for an ACH-based debit card, and uses the card at an ATM to withdraw cash Proper SEC Code: <b>MTE</b></p> <p style="text-align: right;"><i>Box H</i></p>	<p>Example: Customer enrolls through a merchant or bank telephone system for an ACH-based debit card, and uses the card at an ATM to withdraw cash Proper SEC Code: <b>MTE</b></p> <p style="text-align: right;"><i>Box I</i></p>

TRANSACTION INITIATION METHOD	ENROLLMENT/AUTHORIZATION METHOD		
	PHYSICAL ENROLLMENT	INTERNET ENROLLMENT	TELEPHONE ENROLLMENT
<b>Use via Telephone</b>	<p>Example:</p> <p>Customer opens account at a bank branch and authorizes debits to transfer funds into the account, and initiates such debits via the bank's telephone system</p> <p>Customer enrolls in biller's or service provider's bill payment service via mail, and initiates individual bill payments through the biller's or service provider's telephone system</p> <p>Customer enrolls at a merchant store or a bank branch for an ACH-based debit card, and uses the card to make a purchase over the phone</p> <p>Proper SEC Code: <b>PPD</b></p> <p style="text-align: right;"><i>Box J</i></p>	<p>Example:</p> <p>Customer executes at a bank's web site an authorization to transfer funds into a savings account, and initiates each transfer via the bank's telephone system</p> <p>Customer enrolls on a biller's or service provider's web site to pay bills, and initiates individual bill payments via the biller's or service provider's telephone system</p> <p>Customer enrolls on a merchant or bank website for an ACH-based debit card, and uses the card to make a purchase over the phone</p> <p>Proper SEC Code: <b>WEB</b></p> <p style="text-align: right;"><i>Box K</i></p>	<p>Example:</p> <p>Customer receives a written ACH authorization with a billing statement and "signs" the authorization to pay the bill by entering a code into the biller's VRU</p> <p>Proper SEC Code: <b>PPD</b></p> <p style="text-align: right;"><i>Box L</i></p>
<b>Use via Pre-Authorization (i.e., no other direct action)</b>	<p>Example:</p> <p>Customer executes in person or via mail a written authorization for a monthly ACH debit to pay a bill</p> <p>Customer executes in person or via mail a written authorization for a monthly ACH debit to transfer funds into another account</p> <p>Proper SEC Code: <b>PPD</b></p> <p style="text-align: right;"><i>Box M</i></p>	<p>Example:</p> <p>Customer executes at a biller's web site an authorization for a monthly ACH debit to pay a bill</p> <p>Customer executes at a bank's web site an authorization for a monthly transfer into a savings account</p> <p>Proper SEC Code: <b>WEB</b></p> <p style="text-align: right;"><i>Box N</i></p>	<p>Example:</p> <p>Customer receives a written ACH authorization with a billing statement and "signs" the authorization to pay the bill and future recurring bills by entering a code into the biller's VRU</p> <p>Proper SEC Code: <b>PPD</b></p> <p>Customer calls into a recorded biller customer service line and orally authorizes monthly debits; the biller complies with the Rules for recurring TEL transactions and timely mails a written copy of the authorization</p> <p>Proper SEC Code: <b>TEL</b></p> <p style="text-align: right;"><i>Box O</i></p>

# Network Administration Fees

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The *NACHA Operating Rules* require each Participating Depository Financial Institution that transmits or receives ACH entries (commercial and Federal Government) to pay an annual fee and a per-entry fee to pay for costs associated with the administration of the ACH Network. These Network Administration Fees apply to all entries subject to the requirements of the *NACHA Operating Rules*, whether such entries are transmitted via an ACH Operator, sent directly from one Participating DFI to another, or sent through another entity. The Network Administration Fees have been established by the NACHA Board of Directors and are reviewed and modified, as appropriate, on an annual basis.

## NETWORK ADMINISTRATION FEES AND DATA REPORTING REQUIREMENTS

The accompanying chart provides information on the amount of the annual and per-entry fees for the 2013 calendar year. The ACH Operators collect the annual fees and per-entry fees on behalf of NACHA for entries sent from one Participating DFI to another Participating DFI through the ACH Operators.

Financial institutions are required to report and NACHA collects directly the per-entry fees for ACH entries not sent through the ACH Operators, but that are sent as part of direct send or “on-we” arrangements. A direct send or “on-we” arrangement is one in which a Participating DFI sends a payment file that uses the NACHA formats and/or is covered by the *NACHA Operating Rules*, where that file is not processed by an ACH Operator, but instead is exchanged with another non-affiliated Participating DFI, either directly or through another entity. This definition applies regardless of how interbank settlement is accomplished.

Participating DFIs with direct send or “on-we” volume exceeding 5 million entries annually are obligated to file the requisite reporting with NACHA quarterly. Participating DFIs with direct send volume below this threshold are obligated to file with NACHA annually. These financial institutions are required to submit transaction volume data and any associated fees directly to NACHA using Form N-7 (2013). Any Participating DFI whose direct send or “on we” volume of entries originated or received exceeds 5 million for any quarter ending March 31, June 30, September 30, or December 31, 2013 must submit the above data and fees on a quarterly basis thereafter. The submission deadlines for quarterly filers are April 30, July 31, and October 31, 2013, and January 31, 2014. Participating DFIs that exceed the threshold during the calendar year must aggregate all prior quarters’ fees in their current quarter’s Form N-7 (2013) payment. Participating DFIs whose direct send volume is below this threshold must submit the above data and fees for calendar year 2013 by January 31, 2014.

### National Automated Clearing House Association 2013 Schedule Of Fees

#### ACH Network Administration Fees

This Schedule of Fees has been established by the NACHA Board of Directors for calendar year 2013 in accordance with the requirements of the *NACHA Operating Rules*, Article One (General Rules), Section 1.10 (Network Administration Fees).

- Per-Entry Fee (January 1–December 31) . . . . . \$ .000145
- Annual Fee . . . . . \$ 144.00

## NETWORK ADMINISTRATION FEES — FILING REQUIREMENTS FOR PARTICIPATING DEPOSITORY FINANCIAL INSTITUTIONS

Form N-7 (2013) is provided for the purposes of reporting and submitting payment of Network Administration Fees, as required by the *NACHA Operating Rules*, on ACH entries that are transmitted or received under a direct send or “on-we” arrangement. These reporting requirements are not applicable to Participating DFIs whose entries are processed exclusively through an ACH Operator, where all applicable transaction volume will be reported to and fees collected by the ACH Operators on behalf of NACHA.

### ***Who Must File***

Any Participating DFI that transmits or receives entries that use the NACHA formats and/or are covered by the *NACHA Operating Rules*, where those entries are not processed by an ACH Operator, but instead are exchanged with another non-affiliated Participating DFI, either directly or through another entity, during the 2013 calendar year.

### ***Who Does Not Have to File***

Any Participating DFI that transmits and receives 100% of its ACH entries during 2013 through an ACH Operator or with affiliated Participating DFIs does not need to file Form N-7 (2013). All applicable Network Administration Fees are billed and collected on NACHA’s behalf by the ACH Operator, and appear on your customer statement as “NACHA Admin Network Fee/Entry” and “NACHA Admin Network Fee/Month.”

### ***When and Where to File***

Any Participating DFI whose direct send or “on-we” volume of entries originated and received exceeds 5 million for any quarter ending March 31, June 30, September 30, or December 31, 2013 must file on a quarterly basis thereafter. The submission deadlines for quarterly filers are April 30, July 31, and October 31, 2013, and January 31, 2014. Participating DFIs that exceed this threshold during the calendar year must aggregate all prior quarters’ fees in the current quarter’s payment. Participating DFIs whose direct send or “on-we” volume is below the threshold must submit their calendar year 2013 data and fees by January 31, 2014.

Completed forms and payment must be received by NACHA no later than the above deadlines and should be mailed to: NACHA – The Electronic Payments Association, Attn: Finance Department, 13450 Sunrise Valley Drive, Suite 100, Herndon, VA 20171. Payment may be made by ACH credit or check (made payable to NACHA).

To pay by ACH credit, credit must be initiated by the organization filing Form N-7. UPIC Routing & Transit # 021052053, Acct # 59058945. Use CCD format for single filing. Complete in Batch Header (1) Company Name (2) Company Entry Description (specify Form N-7 (2013)).

### ***Form Instructions***

Line 1. Enter legal name of Participating DFI.

Line 2. Enter mailing address of Participating DFI.

Line 3a. List the number of ACH entries transmitted and received by the Participating DFI that were not processed by an ACH Operator but were exchanged with another non-affiliated Participating DFI, either directly or through another entity, for the applicable period. Entries should be sorted by routing number of the non-affiliated DFI and include debits, credits and entries of non-value. If there are more routing numbers than spaces available, attach another sheet. Total columns and add together to calculate the grand total.

Line 3b. Enter the grand total from line 3a.

Line 4. Represents the 2013 per entry fee of \$.000145

Line 5. Multiply line 3b by line 4 [example: (line 3b) 100,000 x (line 4) \$.000145 = (line 5) \$14.50]

Line 6. Payment due is equal to the amount on line 5. Indicate payment method. If by check, make check payable to NACHA. If payment by ACH Credit, indicate date of credit to be initiated by the business. See account information above for ACH Credit. If amount on line 5 is less than one dollar, submit the completed form only; no payment is due.

***Still Need Additional Information?***

Downloadable Forms and Instructions are available at <http://www.nacha.org/c/Ntwrkadminfee.cfm> or contact Member Services, 800-487-9180 or 703-561-1100 or email: [info@nacha.org](mailto:info@nacha.org).

**Select Filing Period and Deadline (check all that apply):**

1. Financial Institution Name \_\_\_\_\_
2. Business Address \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. Direct Send Information
  - a. 2013 direct send ACH entries by routing number of non-affiliated Participating DFI (*see instructions*)

ROUTING NUMBER	ENTRIES RECEIVED	ENTRIES ORIGINATED
TOTALS		
GRAND TOTAL (TOTAL RECEIVED + TOTAL ORIGINATED)		

**FORM N-7 (2013)**  
*(continued)*

- b. 2013 total direct send ACH entries *(see instructions)* \_\_\_\_\_
4. 2013 per entry fee x \$.000145
5. Uncollected 2013 Network Administrative Fees (line 3 x line 4) \$ \_\_\_\_\_
6. Payment Due: (Amount on line 5) Check enclosed \_\_\_\_\_ or Date of ACH credit \_\_\_\_\_  
*(If less than \$1.00, no payment due, submit form only)*

I declare that I have examined this form and to the best of my knowledge and belief, it is true, correct and complete.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Printed Name \_\_\_\_\_

Title \_\_\_\_\_

Financial Institution Name \_\_\_\_\_

Email Address \_\_\_\_\_ Phone Number \_\_\_\_\_

*Mail completed form and payment to:*

NACHA – The Electronic Payments Association  
Attn: Finance Department  
13450 Sunrise Valley Drive, Suite 100  
Herndon, VA 20171



# Revisions to the *NACHA Operating Rules & Guidelines*

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The 2013 edition of the *NACHA Operating Rules & Guidelines* contains changes related to four sets of amendments: IAT Modifications and Refinements; Data Passing; ODFI Return Rate Reporting; and Incomplete Transactions and the Return of Funding Debit Entries. The effective date for these changes is March 15, 2013.

This section also includes a technical summary of all changes to the *Rules* that were implemented in 2012. The text changes were officially communicated via Supplements, but they are summarized here for reference. Please note that since these changes are already effective, they are not marked within the text of the *Rules*.

## IAT Modifications and Refinements

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*(Approved September 8, 2011 – Effective March 15, 2013)*

### SUMMARY

The IAT Modifications and Refinements changes clarify and enhance the *Rules* where appropriate to support more efficient processing of IAT Entries.

### KEY COMPONENTS OF RULE AMENDMENTS

#### ***Use of Return Reason Code R16 to Identify OFAC-Related Returns***

This amendment revises the description of R16 (Account Frozen) to accommodate the return of Entries in response to an instruction from OFAC to do so.

Since implementing IAT, NACHA has received inquiries regarding which return reason code is appropriate for an RDFI to use to indicate that the return of an IAT Entry was based on an instruction to do so from OFAC. Under the current *Rules*, R16 (Account Frozen) provides the closest match, permitting an RDFI to return an Entry because access to the account is restricted due to specific action taken by the RDFI or by legal action. This amendment expands the title and description of Return Reason Code R16 (Account Frozen) to accommodate this code's use for the RDFI's return of an Entry based on an instruction from OFAC.

#### ***Return Reason Code and Change Code for Gateway Use with Incorrectly-Coded International Payments***

This amendment establishes two new codes – one Return Reason Code and one Change Code – for use by Gateways to advise ODFIs and Originators that funds related to a domestically-coded Entry (i.e., PPD, CCD, etc.) are being moved out of the country and that the Entry should have been formatted as an IAT Entry.

This change defines an additional Return Reason Code for use by Gateways that clearly indicates that an Entry is being returned because it is part of an international payment transaction and lacks sufficient information for the Gateway to ensure that it complies with U.S. law. This rule also creates a new NOC code, to be used only by a Gateway, to notify the Originator/ODFI that the payment has been processed but that it is part of an international payment transaction and requires appropriate formatting going forward.

These new codes enable the Gateway to process or return the payment, depending on its risk tolerance, while conveying critical payment information back to the ODFI.

#### ***Corrected Data for IAT Entries – NOC Code Descriptions***

This amendment corrects the descriptions of Change Codes C04 (Incorrect Individual Name/Receiving Company Name) and C09 (Incorrect Individual Identification Number) as they relate to IAT Entries. Specifically, this change revises IAT information under the “Notes” section for these codes to reflect the proper field lengths for these data elements as they are used within the Corrected Data Field of an IAT Entry. (Note: These changes have no impact on NOC record layouts or formatting.)

This amendment also modifies the title of Change Code C09 to adopt the corresponding field name for IAT Entries.

## TECHNICAL SUMMARY

The changes to the *Rules* language, as noted below, represent modifications to the *NACHA Operating Rules*.

### **Use of Return Reason Code R16 to Identify OFAC-Related Returns**

- *Appendix Four, Part 4.2 (Table of Return Codes): R16 (Account Frozen/Returned per OFAC Request)* – revises the description to clarify that this return code can be used with an OFAC instruction for return.

### **Return Reason Code and Change Code for Gateway Use with Incorrectly-Coded International Payments**

- *Appendix Four, Part 4.2 (Table of Return Codes): R85 (Incorrectly Coded Outbound International Payment)* – establishes a new return code for an incorrectly-coded outbound international payment.
- *Appendix Five, Part 5.3 (Table of Change Codes for Notification of Change): C14 (Incorrect SEC Code for Outbound International ACH Transaction)* - establishes a new change code for an incorrectly-coded outbound international payment.

### **Corrected Data for IAT Entries – NOC Code Descriptions**

- *Appendix Five, Part 5.3 (Table of Change Codes for Notification of Change)*
  - C04 (Incorrect Individual Name/Receiving company name) – clarifies the description as it relates to IAT Entries.
  - C09 (Incorrect Individual Identification Number) – clarifies the description as it relates to IAT Entries

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## Data Passing

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*(Approved April 2, 2012 – Effective March 15, 2013)*

### SUMMARY

The Data Passing Rule prohibits sharing of certain customer information by Originators, Third-Party Service Providers and ODFIs for the purpose of initiating debit Entries that are not covered by the original authorization.

### KEY COMPONENTS OF RULE AMENDMENT

This amendment revises the *Rules* to: 1) prohibit an ODFI from disclosing a consumer Receiver's account number or routing number to any third party for use in initiating a debit Entry that is not part of the original authorization; and 2) require the ODFI to ensure that the Originator and any Third-Party Service Provider do not disclose such information for use in initiating a debit Entry that is not part of the original authorization.

### IMPACT TO PARTICIPANTS

**Receivers:** The rule is expected to benefit consumer Receivers by protecting their account information from use in connection with purported authorizations that they do not intend to give.

**RDFIs:** The rule is expected to reduce RDFIs' exception processing associated with unauthorized transactions and other customer service costs due to questionable transactions.

**ODFIs, Originators and Third-Party Service Providers:** The rule should have little or no effect on ODFIs, Originators, and Third-Party Service Providers, since most data passing activity is prohibited by The Restore Online Shoppers' Confidence Act.

### TECHNICAL SUMMARY

Below is a summary of the impact of this rule change on the *NACHA Operating Rules*. Sections of the *Rules* that are affected by this amendment are also included.

- Article Two, Subsection 2.3.4 (Restrictions on Data Passing) – Adds a new subsection to the *Rules* on authorization that:
  - (1) prohibits an ODFI from disclosing the Receiver's account number or routing number to any third party for such third party's use, directly or indirectly, in initiating a debit Entry that is not covered by the original authorization; and
  - (2) requires an ODFI to ensure that the Originator and any Third-Party Service Provider acting on behalf of the Originator or ODFI do not disclose the Receiver's account number or routing number to any third party for such third party's use, directly or indirectly, in initiating a debit Entry that is not covered by the original authorization.

## ODFI Return Rate Reporting

(Approved April 2, 2012 – Effective March 15, 2013)

### SUMMARY

The modification to the *Rules* for ODFI Return Rate Reporting will reduce the reporting period from 60 days to 30 days during which the ODFI has to reduce a return rate below the threshold before the initiation of a rules enforcement proceeding.

### KEY COMPONENT OF RULE AMENDMENT

This amendment will reduce the ODFI Return Rate Reporting period from 60 days to 30 days.

### IMPACT TO PARTICIPANTS

**All Participants:** By shortening the deadline by which an excessive rate of return must be resolved by an ODFI and its Originator, the ACH Network, as a whole, benefits through the introduction of fewer unauthorized debits into the payments system.

**RDFIs:** RDFIs should receive fewer unauthorized entries, resulting in lower exception processing costs associated with the return of unauthorized entries and the response to customer service calls.

**ODFIs:** Some ODFIs, particularly those with inadequate risk management procedures, may incur incremental costs associated with development and implementation of additional policies and procedures to ensure their Originators' and Third Party Senders' compliance with the shortened grace period.

**Originators and Third-Party Senders:** Originators and Third-Party Senders with excessive return rates will be compelled by their ODFIs to take action more quickly to reduce their return rates and will likely incur costs in doing so.

### TECHNICAL SUMMARY

The changes to the *Rules* language, as noted below, represent modifications to the *NACHA Operating Rules*.

- Article Two, Subsection 2.17.2.1 (Additional ODFI Action and Reporting When the Return Threshold is Exceeded) and Article Two, Subsection 2.17.2.2 (ODFI Reduction of Return Rate) – Reduces to 30 days from 60 days the time period during which an ODFI may reduce a return rate below the applicable threshold before a rules enforcement proceeding may be initiated.
- Appendix Ten, Subpart 10.2.2 (National Association Action on Receipt of Information Reported by ODFI) – Reduces the 60 day time period to 30 days before NACHA may initiate a rules enforcement proceeding against an ODFI when an Originator's or Third-Party Sender's unauthorized Entry return rate exceeds the threshold.
- Appendix Ten, Subpart 10.4.3 (Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association) and Appendix Ten, Subpart 10.4.7.4 (Class 2 Rules Violation) – Reduces to 30 days the time period during which an ODFI may reduce a return rate below the applicable threshold before a rules enforcement proceeding may be initiated.
- Appendix Ten, Subpart 10.4.7.4 (Class 2 Rules Violation) - Revises the reference for the ODFI action time frame from 60 days to 30 days.

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## Incomplete Transactions and the Return of Funding Debit Entries

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*(Approved April 2, 2012 – Effective March 15, 2013)*

### SUMMARY

The Incomplete Transactions and the Return of Funding Debit Entries rule allows the return of a debit Entry to a Consumer Account within 60 days of the Settlement Date for an “Incomplete Transaction.”

### KEY COMPONENT OF RULE AMENDMENT

This rule allows the return of a debit Entry to a Consumer Account within 60 days of the Settlement Date for an “Incomplete Transaction.” An “Incomplete Transaction” is defined as a transaction for which a Third Party Sender debits a consumer’s account to collect funds, but does not complete the corresponding payment to the party to which payment is owed. The request for recredit and the RDFI’s return of a debit entry related to an Incomplete Transaction will be subject to the same requirements and time frames currently defined within the *Rules* for the recredit and return of an unauthorized debit to the Receiver’s account (i.e., 60-day return with Written Statement of Unauthorized Debit).

### IMPACT TO PARTICIPANTS

**RDFIs:** This amendment explicitly allows RDFIs to return debits related to Incomplete Transactions as they would any other unauthorized debit to a consumer’s account. Any customer service or processing impact to the RDFI should be minimal. RDFIs may, however, bear some programming, customer service, and training costs associated with the expanded uses of the R10 Return Reason Code.

**Receivers:** Consumer Receivers benefit from the ability to be re-credited for a debit when a corresponding payment is not made by a Third-Party Sender on the Receiver’s behalf.

**ODFIs:** ODFIs may need to perform additional due diligence with respect to Third-Party Sender customers to ensure that the Third-Party Senders have the capabilities to complete transactions. ODFIs may incur costs associated with training and due diligence costs associated with the expanded use of Return Reason Code R10.

**Originators:** Originators are expected to benefit from a better resolution of the interruption of their customers’ payments. When Originators’ customers are re-credited by their RDFIs, these customers will be in a position to make alternative payment arrangements with Originators.

**Third-Party Senders:** Third-Party Senders may be subject to tighter obligations imposed by their ODFIs as a result of the Rule. Third-Party Senders may also incur programming and training costs associated with the expanded use of Return Reason Code R10.

### TECHNICAL SUMMARY

Below is a summary of the impact of this rule change on the *NACHA Operating Rules*. Sections of the *Rules* that are affected by this amendment are also included below.

- Article Three, Section 3.11 (RDFI Obligation to Recredit Receiver) – Expands this section to require an RDFI to recredit the accountholder for a debit Entry to a Receiver’s account that is part of an Incomplete Transaction.
- Article Three, Subsection 3.11.1 (RDFI General Obligation to Recredit Consumer Accounts) - Clarifies

that the RDFI's recredit obligation regarding a debit Entry to a Consumer Account that is part of an Incomplete Transaction does not apply when a partial or erroneous payment was made to the intended third-party payee;

- Article Three, Subsection 3.12.3 (Incomplete Transaction) – Adds a new subsection defining the concept of an Incomplete Transaction as it relates to the use of the Written Statement of Unauthorized Debit.
- Article Three, Subsection 3.12.4 (RDFI Must Accept Written Statement of Unauthorized Debit) – Requires an RDFI to accept a Written Statement of Unauthorized Debit from a Receiver with respect to any Incomplete Transaction to a Consumer Account.
- Article Eight, Subsection 8.46 (“Incomplete Transaction”) – Defines the term “Incomplete Transaction” as “a payment to an intended third-party payee that was not made or completed by the Originator, Third-Party Sender or ODFI of a corresponding debit Entry authorized by the Receiver for the purpose of funding the payment to the third-party payee. A partial or erroneous payment to the intended third-party payee is not an Incomplete Transaction.”
- Article Eight, Subsection 8.98 (“Written Statement of Unauthorized Debit”) – Modifies the definition of this term to include a written notice by a Receiver to an RDFI requesting recredit for a debit that was part of an Incomplete Transaction.
- Table of Return Reason Codes – Revises the descriptions of Return Reason Code R10 to accommodate the return of a debit Entry that is a part of an Incomplete Transaction.

## Technical Summary of 2012 Changes to the Rules

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The following is a technical summary of the changes to the *NACHA Operating Rules* implemented during 2012. The amendments are in chronological order based on implementation date. The text changes were officially communicated via Supplements to the *Rules*, but they are summarized here for reference. Please note that since these changes are already effective, they are not marked within the text of the 2013 *Rules*.

### EFFECTIVE DATE: JANUARY 1, 2012

#### **Minor Impact Changes**

*(Approved September 8, 2011)*

In general, minor impact issues include: 1) editorial changes to address corrections to grammar and similar errors; 2) changes to correct inconsistencies between various rules; 3) clarifications of intent; 4) minor modifications to incorporate current practices (e.g., Operator edits, return code descriptions); and 5) changes that involve minor software modifications.

#### *Updated Definition of Participating Depository Financial Institution*

*Article Eight, Section 8.61 (Participating Depository Financial Institution)* – removed reference to membership in an Association

#### *Simplification of Definitions - Entry, Originator, Receiver and Third-Party Sender*

Definitions of Entry, Originator, Receiver and Third-Party Sender

*Article Eight, Section 8.33 (Entry)* – added references to account types

*Article Eight, Section 8.59 (Originator)* – removed references to account types

*Article Eight, Section 8.68 (Receiver)* – removed references to account types

*Article Eight, Section 8.88 (Third-Party Sender)* – removed references to account types

#### *Refinement of Definition of Return Reason Code R23 – Credit Entry Returned by Receiver*

*Article Three, Subsection 3.8.3.2 (Timing Requirements for Credit Entries Returned by Receiver)* – modified title and text to replace “returned” with “refused” and to indicate that the time period for return begins when the Receiver notifies the RDFI that it has refused the entry

*Appendix Four, Subpart 4.2 (Table of Return Reason Codes)* - updated for corresponding clarifications to the time frame and cross reference descriptions within Return Reason Code R23.

#### *Editing of Appendix Eight Rules Compliance Audit Requirement Language*

*Appendix Eight, Part 8.2 (Audit Requirements for All Participating DFIs), Item c* – removed provision that DFI addresses findings from previous audits, which lacked a direct *Rules* citation

*Appendix Eight, Part 8.2 (Audit Requirements for All Participating DFIs), Item f* - added new audit provision regarding DFI risk management and assessment program requirements

*Appendix Eight, Part 8.3 (Audit Requirements for RDFIs), Item i* – removed provision regarding RDFIs returning entries using Return Reason Code R06 – Returned per ODFI’s Request, which lacked a direct *Rules* citation



*Appendix Eight, Part 8.3 (Audit Requirements for RDFIs), Item j* – removed provision regarding RDFI awareness of Return Reason Code R08 – Payment Stopped, which lacked a direct *Rules* citation

*Appendix Eight, Part 8.4 (Audit Requirements for ODFIs), Item a* – updated language to reflect *Rules* changes effective in June 2010 requiring ODFI origination agreements to include the right of the ODFI to terminate the agreement, and the right of the ODFI to audit the Originator's or Third-Party Sender's compliance with the agreement and the *Rules*

*Appendix Eight, Part 8.4 (Audit Requirements for ODFIs), Item c* – removed outdated language regarding exposure limits and replaced it with modified language related to the ODFI's obligations to assess an Originator's or Third-Party Sender's ACH activity and risks; monitor its Originator's and Third-Party Sender's return activity across multiple settlement dates; enforce restrictions on the types of entries that may be originated; and enforce the exposure limit

#### *Modifications to Notification of Change Corporate Entry Detail Records*

*Appendix Three, Subpart 3.2.2 (Glossary of Data Elements), Number of Addenda Records* – added IAT Notification of Change entries to the list of Standard Entry Class Codes for which the Number of Addenda Records is a mandatory field in the Corporate Entry Detail Record; updated the field inclusion requirements for the Notification of Change and Refused Notification of Change Corporate Entry Detail Records

*Appendix Five, Subpart 5.4.3 (Corporate Entry Detail Record Format for Notification of Change)* – revised the field inclusion requirement and contents for the Number of Addenda Records Field from “N/A” and “blank” to “R” (required) and “numeric”

*Appendix Five, Subpart 5.4.9 (Corporate Entry Detail Record Format for Automated Refused Notification of Change)* – revised the field inclusion requirement for the Number of Addenda Records from “M” (mandatory) to “R” (required)

#### **Corporate Account Takeover – Voluntary Availability Exception for RDFIs**

*(Approved September 8, 2011)*

This rule provides an option for an RDFI to take advantage of a voluntary exception from the existing funds availability requirements prescribed within the *Rules* for an ACH credit when the RDFI reasonably suspects that the ACH credit is not authorized. The amendment allows an RDFI additional time to investigate a suspicious credit prior to making funds available to the Receiver. The additional time increases the likelihood that unauthorized credit entries could be identified and the associated funds could be recovered before they are withdrawn, at which point the likelihood of recovery significantly decreases.

The following subsections were amended to allow the RDFI exemption from the funds availability requirements within the *Rules* if the RDFI reasonably suspects that a credit entry is unauthorized.

*Article Three, Subsection 3.3.1.1 (General Rule for Availability of Credits)*

*Article Three, Subsection 3.3.1.2 (Availability for Certain Credit PPD Entries)*

#### **Risk Management Issues – Excused Delay**

*(Approved November 2, 2011)*

This amendment revised the excused delay provisions within the *Rules* so that an interruption or the suspension of payment by, or unavailability of funds from, a Participating DFI or an ACH Operator is not

a condition under which a Participating DFI may claim an excused delay. In addition, the excused delay provision of the Rules was revised so that a Participating DFI or ACH Operator can make an excused delay claim only “to the extent” the delay was caused by the circumstances identified in Section 1.5 (Excused Delay) for which delay may be excused.

*Article One, Subsection 1.5 (Excused Delay)* – Eliminated excused delay by a Participating DFI for the interruption or the suspension of payment by, or unavailability of funds from, a Participating DFI or another ACH Operator; and clarified that excused delay is only “to the extent” caused by interruption of communication or computer facilities.

***Pain Points in the Rules - Phase Two: WEB Exposure Limit***

*(Approved November 2, 2011)*

This amendment changed the NACHA Operating Rules (Rules) to eliminate the ODFI requirement to establish a separate exposure limit on Originators or Third-Party Senders of WEB Entries. This issue was identified in the rule-making process as a “pain point;” the amendment eliminated a requirement that no longer adds value to ACH Network users, and improved ACH processing efficiency.

*Article Two, Subsection 2.2.2 (ODFI Risk Management)* – incorporated language addressing “implementation” and “review” of exposure limits established by the ODFI.

*Article Two, Subsection 2.5.17.4(c) (Additional ODFI Warranties for WEB Entries – ODFI Exposure Limits)* – removed the ODFI warranty regarding the establishment of a specific exposure limit on an Originator’s initiation of WEB Entries.

*Appendix Eight, Parts 8.4 (c) and (d) (Audit Requirements for ODFIs)* – incorporated language addressing “implementation” and “review” of exposure limits into part (c) and deleted the specific audit requirement addressing exposure limits for WEB entries under part (d).

**EFFECTIVE DATE: MARCH 16, 2012**

***IAT Modifications and Refinements***

*(Approved September 8, 2011)*

The IAT Modifications and Refinements changes clarify and enhance the Rules where appropriate to support more efficient processing of IAT Entries. Provisions with minimal or no impact on ACH Network software or processing requirements were effective on March 16, 2012.

***IAT Entries and the Effect of Illegality***

*Article One, Subsection 1.2.1 (Effect of Illegality)* – expanded this subsection to clarify that a Participating DFI must comply with all requirements of the Rules for any non-suspect transaction.

***Clarification of Rules Exceptions for IAT Entries***

*Article Two, Subsection 2.5.8.2 (Authorization for Outbound IAT Entries)* – defined specific authorization requirements for Outbound IAT Entries.

*Article Two, Subsection 2.5.8.5 (Rules Exceptions for Outbound IAT Entries)* – updated the list of rules not applicable to Outbound IAT Entries and clarified that certain ACH functions apply only to the extent that they are permitted by the laws and payment system rules of the receiving country.

*Article Two, Subsection 2.5.8.6 (Rules Exceptions for Inbound IAT Entries)* – established a new subsection to identify specific rules that do not apply to Inbound IAT Entries.

*Article Three, Subsection 3.4.3.3 (Specific Provisions for Outbound IAT Entries)* – broadened this subsection (including the section title) to (1) incorporate an explicit statement that a Participating DFI acting as a Gateway assumes the responsibilities and warranties of an RDFI for each Outbound IAT Entry it transmits, with the specific exception of the rights and obligations between the DFI and the foreign receiver, and (2) update the current list of rules not applicable to Outbound IAT Entries.

*Article Five, Subsection 5.1.6 (Gateway Action on Receipt of Notification of Change (NOC) Related to Inbound IAT Entries)* – required Gateways to notify their foreign contacts of any changes requested through the NOC process to ensure proper processing of future ACH Entries.

*Required Gateway Agreements and Authorizations for Outbound IAT Entries*

*Article Five, Subsection 5.1.1 (Gateway Must Enter Agreement with ODFI or Gateway's Customer)* – broadened the Gateway agreement requirements to permit parties other than the ODFI to have an agreement with the Gateway for the transmission of Outbound IAT Entries.

*Article Five, Subsection 5.1.4 (Gateway Must Obtain Authorization from ODFI or Gateway's Customer)* – broadened the Gateway authorization requirements to permit parties other than the ODFI to authorize the Gateway to transmit Outbound IAT Entries to and settle with a Foreign Gateway for further credit to the foreign receiver's account.

*Appendix Four (Return Entries), Part 4.2 (Table of Return Codes)* – revised the description and cross-reference sections of Return Reason Code R81 to broaden the discussion regarding the lack of necessary agreements.

*Return of Outbound IAT Entry by Foreign Gateway – Transmission of ACH Return by Gateway to ODFI*

*Article Five, Subsection 5.1.5 (Gateway Obligation to Transmit Return Entries for Outbound IAT Entries Returned by Foreign Gateway)* – added a specific obligation and time frame for a Gateway to transmit a Return Entry related to an Outbound IAT Entry that was properly returned to it by the Foreign Gateway.

*Identification of the Foreign Funding Financial Institution Within an ACH Entry*

*Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* – revised the descriptions of the following fields within the 4th IAT Addenda Record to clarify required content:

*Originating DFI Branch Country Code*

*Originating DFI Identification*

*Originating DFI Identification Number Qualifier*

*Originating DFI Name*

*Clarification of Originator Identification Field*

*Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* – revised the definition of the Originator Identification Field within an IAT Entry to permit the inclusion of additional identifying information for use by the ODFI.

*Return Reason Codes R80-R84 – Clarification of Use For Outbound IAT Entries Only*

*Appendix Four, Part 4.2 (Table of Return Codes) and IAT Record Formats - R80-84 (Return Reason Codes to be Used by Gateways for Outbound IAT Entries)*: clarified that these codes are for use by Gateways only.

*Expansion of Return Reason Code R84 (Entry Not Processed By Gateway Operator)*

*Appendix Four, Part 4.2 (Table of Return Codes) and IAT Record Formats - R84 (Entry Not Processed by Gateway):* expanded the use of this return code to allow a Gateway to return an IAT Entry when the foreign payment system does not support the function(s) needed to process the transaction.

***Pain Points in the Rules - Phase Two: Expansion of ARC***

*(Approved November 2, 2011)*

This amendment changed the NACHA Operating Rules (Rules) to permit the use of ARC for the conversion of checks tendered via a delivery service or in person for the payment of a bill at a manned location.

Each section of the Rules listed below was revised to incorporate language permitting a check presented (1) via a delivery service, or (2) in person for the payment of a bill at a manned location, to be converted to an ARC entry:

*Article Two, Subsection 2.5.1.1 (General Rule for ARC Entries).*

*Article Two, Subsection 2.5.1.2 (Authorization of ARC Entries by Notification).*

*Article Two, Subsection 2.5.1.3 (Eligible Source Document Required).*

*Article Eight, Section 8.1 ("Accounts Receivable Entry" or "ARC Entry" or "ARC").*

*Appendix Three, Subpart 3.2.2 (Glossary of Data Elements), "Standard Entry Class Code".*

**EFFECTIVE DATE: SEPTEMBER 21, 2012**

***IAT Modifications and Refinements***

*(Approved September 8, 2011)*

The IAT Modifications and Refinements changes clarified and enhanced the Rules where appropriate to support more efficient processing of IAT Entries. Provisions with a more substantial impact on ACH software or processing requirements were effective on September 21, 2012.

*Minimum Description Standards for IAT Entries*

*Article Three, Subsections 3.1.5.1 (RDFI Must Provide Entry Information for Consumer Accounts) and 3.1.5.2 (RDFI Must Provide Entry Information to Receivers of ARC, BOC, or POP Entries to Non-Consumer Accounts)* – revised these subsections to provide RDFIs with greater clarity regarding the information from an IAT Entry that must be included on the Receiver's statement.

*Gateway Notification of Rejected Inbound International Payment*

*Article Five, Subsection 5.1.3 (Gateway Must Notify Intended RDFI of Unlawful Inbound Payment Transaction)* – established a requirement for the Gateway to notify the intended RDFI if an inbound international payment transaction was rejected or blocked because it would violate U.S. law and provide minimum information related to the transaction, unless prohibited by law.

*Transaction Type Code to Identify Remittances*

*Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* – expanded the list of eligible code values that may be included within the Transaction Type Code field.

***Dishonor of Return Entries***

*(Approved April 2, 2012)*

The Dishonor of Return Entries change amended the Rules to eliminate a “pain point” in the Rules that required the ODFI or Originator to have suffered a loss before being able to dishonor an untimely return. This change eliminated a requirement that no longer added value to ACH Network users and therefore improved ACH processing efficiency.

*Article Two, Subsection 2.12.5.1 (Dishonor of Return by ODFI)* - removed language in item (a) requiring either the ODFI or Originator to substantiate a loss was suffered in order to dishonor the untimely return entry.



# Supplement #2-2012 to the *NACHA Operating Rules*

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On October 31, 2012, NACHA's Voting Membership approved two amendments to the *NACHA Operating Rules (Rules)*: ACH Security Framework and Healthcare Payments via ACH. These amendments will become effective September 20, 2013.

This supplement provides ACH Network participants with a summary of the key components of each change, along with details regarding the technical changes to the 2013 *Rules* language. Because these amendments were approved just prior to publication of the 2013 edition of the *NACHA Operating Rules & Guidelines*, the material contained in this Supplement is not included within the main body of the publication. To ensure compliance with the most current rules, this Supplement should be used in conjunction with the 2013 *Rules*.

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## ACH Security Framework

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*(Approved October 31, 2012 – Effective September 20, 2013)*

### SUMMARY

The ACH Security Framework amendment creates a framework within the *NACHA Operating Rules (Rules)* aimed at protecting the security and integrity of certain ACH data throughout its lifecycle. The Security Framework establishes minimum data security obligations for ACH Network participants to protect ACH data within their purview. Specifically, the Framework:

- requires non-consumer Originators, Participating DFIs, Third-Party Service Providers and Third-Party Senders to establish, implement and, as appropriate, update security policies, procedures, and systems related to the initiation, processing and storage of Entries and resulting Protected Information;
- requires each Participating DFI, Third-Party Service Provider, and Third-Party Sender to verify, as part of its annual ACH Rules Compliance Audit, that it has established, implemented, and updated the data security policies, procedures, and systems required by the *Rules*; and
- requires an ODFI to use a commercially reasonable method to establish the identity of each non-consumer Originator or Third-Party Sender with which the ODFI enters into an Origination Agreement.

### Background

Currently, the *NACHA Operating Rules* contain a number of data security and authentication requirements for ACH transactions that are generally based on individual Standard Entry Class (SEC) Codes and/or triggering events. The marketplace has changed since these security requirements were included in the *Rules* many years ago. Sound industry practices now reflect the understanding that certain financial data should be protected at all times - whether before, during or after transmission, and regardless of the form of transmission (e.g., by Internet or otherwise). By establishing minimum data security obligations, the ACH Security Framework changes will benefit the ACH Network by reducing the potential for both out-of-pocket losses experienced by ACH participants and their customers, and the damaging effect of data breaches on the reputation of the ACH Network and its participants.

### KEY COMPONENTS OF RULE AMENDMENT

The ACH Security Framework amendment consists of three elements: (1) Protection of Sensitive Data and Access Controls; (2) Self-Assessment; and (3) Verification of Third-Party Senders and Originators.

#### ***Protection of Sensitive Data and Access Controls***

The Security Framework requires all non-consumer Originators, Participating DFIs (as both ODFIs and RDFIs), Third-Party Service Providers, and Third-Party Senders to comply with specific security requirements with respect to the handling and storage of Protected Information. The security requirements will not apply directly to consumers, who can be Originators of CIE entries; however, such security requirements will apply to parties originating CIE Entries on behalf of consumers (i.e., the consumer's financial institution or a Third-Party Sender).

Under this rule, non-consumer Originators, Participating DFIs, Third Party Service Providers, and Third-Party Senders will be required to establish, implement, and, as appropriate, update security policies, procedures, and systems related to the initiation, processing, and storage of entries. These policies, procedures, and systems must:



- (1) protect the confidentiality and integrity of Protected Information;
- (2) protect against anticipated threats or hazards to the security or integrity of Protected Information; and
- (3) protect against unauthorized use of Protected Information that could result in substantial harm to a natural person.

The amendment defines Protected Information as:

the non-public personal information, including financial information, of a natural person used to create, or contained within, an Entry and any related Addenda Record.

The definition of Protected Information not only covers financial information, but also includes sensitive non-financial information (such as non-financial account information contained in Addenda Records for bill payments) that may be incorporated into the Entry or any related Addenda Record.

By covering natural persons, the rule on the protection of sensitive data applies to consumer information only, which is consistent with the approach of aligning the Security Framework with existing industry regulations and guidance. Impacted ACH participants, however, may apply the rule more broadly so that it covers all customers.

The security policies, procedures, and systems of ACH participants covered by the Security Framework must include controls on system access that comply with applicable regulatory guidelines. The impacted systems include all of those used by the ACH participant to initiate, process, and store entries. Although it is expected that security policies will be reviewed and approved at a level of responsibility within an organization that is commensurate with the importance of the subject matter, this amendment does not include specific requirements regarding the level of approval of such policies and procedures, thus providing institutions flexibility to accommodate their respective corporate governance structures.

### ***Self-Assessment***

The amendment requires each Participating DFI, Third-Party Service Provider, and Third-Party Sender to verify, as part of the requirements for an annual ACH Rules Compliance Audit, that it has established, implemented, and updated the data security policies, procedures, and systems required by the ACH Security Framework.

As with all provisions of the *Rules*, the annual Rules Compliance Audit applies directly to DFIs and third-parties, but not directly to Originators. Originators are bound to the *NACHA Operating Rules* through their Origination Agreements with their ODFIs. As such, Originators must ensure that they have existing policies, procedures, and systems in place that will enable compliance with the Security Framework

### ***Verification of Third-Party Senders and Originators***

The amendment establishes a requirement that an ODFI use a commercially reasonable method to determine the identity of each non-consumer Originator or Third-Party Sender with which the ODFI enters into an Origination Agreement, at the time the agreement is created. The *NACHA Operating Rules* currently require an ODFI to warrant that the ODFI has used a commercially reasonable method to establish the identity of the Originator or Third-Party Sender that entered into an Origination Agreement via an Unsecured Electronic Network. The Security Framework replaces this warranty with a new prerequisite to origination that more broadly requires the ODFI to verify the identity of all Originators/Third-Party Senders, regardless of the manner in which the Origination Agreement was executed. The amendment makes the requirement an obligation rather than a “warranty” as previously used for transmissions over Unsecured Electronic Networks.

## IMPACT TO PARTICIPANTS

**Originators:** Each non-consumer Originator will incur costs related to an initial effort to determine whether it has existing policies, procedures, and systems in place that would enable it to comply with the Security Framework. A non-consumer Originator that is in compliance with existing data security regulations should also be in compliance with the amendment and will have no to low implementation costs. Non-consumer Originators that do not have such policies, procedures, and systems will incur costs in establishing and/or updating such policies, procedures, and systems to ensure compliance with the Security Framework.

**ODFI:** Each ODFI will incur costs related to an initial effort to determine whether it has existing policies, procedures, and systems in place that would enable it to comply with the amendment. An ODFI that is in compliance with existing data security regulations should also be in compliance with the amendment and will have no to low implementation costs. An ODFI that does not have such policies, procedures, and systems will incur costs in establishing and/or updating such policies, procedures, and systems to ensure compliance with the Security Framework. Each ODFI also will incur ongoing costs to make commercially reasonable efforts to verify the identity of its Originators and Third-Party Senders. However, such costs will only be incremental over the ODFI's existing costs to the extent that it does not currently conduct such assessments and verification. Finally, ODFIs would incur minimal incremental costs to add a verification item to their annual Rules Compliance Audit.

**Third-Party Service Providers and Third-Party Senders:** Each Third-Party Service Provider and each Third-Party Sender will incur costs related to an initial effort to determine whether it has existing policies, procedures, and systems in place that will enable it to comply with the amendment. A Third-Party Service Provider or Third-Party Sender that is in compliance with existing data security regulations should also be in compliance with the Security Framework and will have no to low implementation costs. Each Third-Party Service Provider or Third-Party Sender that does not have such policies, procedures, and systems will incur costs in establishing and/or updating such policies, procedures, and systems to ensure compliance with the Security Framework. Third-parties will incur minimal incremental costs to add a verification item to their annual Rules Compliance Audit.

**RDFIs:** Each RDFI will incur initial costs to determine whether it has existing policies, procedures, and systems in place that will allow it to comply with the amendment, to the extent the RDFI receives Protected Information. An RDFI that is in compliance with existing data security regulations should also be in compliance with the Rule and will have no to low implementation costs. An RDFI that does not have such policies, procedures, and systems will incur costs in establishing and/or updating such policies, procedures, and systems to ensure compliance with the Security Framework. Finally, RDFIs will incur minimal incremental costs to add a verification item to their annual Rules Compliance Audit.

## TECHNICAL SUMMARY

The changes to the *Rules* language, as noted below, represents modifications to the *NACHA Operating Rules* that will become effective on September 20, 2013.

- *Article One, Subsection 1.2.2 (Audits of Rules Compliance)* - modified to correct language related to Third-Party Senders for consistency throughout the *Rules*.
- *Article One, Subsection 1.6 (Security Requirements)* - new subsection incorporates general ACH Security Requirements into the *NACHA Operating Rules*.
- *Article Two, Subsection 2.2.1 (ODFI Verification of Originator or Third-Party Sender Identity)* - new subsection creates an obligation for the ODFI to use a commercially reasonable method to establish the identity of each Originator or Third-Party Sender.

- *Article Two, Subsection 2.4.1.8 (ODFI has Verified the Identity of Originator or Third-Party Sender That Uses an Unsecured Electronic Network Dishonor of Return by ODFI)* - this subsection is removed from the Rules.
- *Article Eight, Section 8.67 (Protected Information)* - adds a definition for the new term “Protected Information.”
- *Appendix Eight, Part 8.2 (Audit Requirements for All Participating DFIs)* - adds a new item “f” that requires annual ACH Rules Compliance Audits to include a verification that the covered ACH participants (i.e., Participating DFIs, Third-Party Service Providers, and Third-Party Senders) have established, implemented, and updated (as appropriate) the security policies, procedures, and systems as required by the Security Requirements provisions.
- *Appendix Eight, Part 8.4 (Audit Requirements for ODFIs)* - modifies item “i” for consistency with the new subsection 2.2.1.

**Implementation Date: September 20, 2013**

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*As approved October 31, 2012, effective September 20, 2013, the Rules are modified as follows for the rule change related to the ACH Security Framework:*

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## ARTICLE ONE

### General Rules

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#### **SUBSECTION 1.2.2 Audits of Rules Compliance**

A Participating DFI must annually conduct, or have conducted, an audit of its compliance with these Rules in accordance with Appendix Eight (Rule Compliance Audit Requirements). A Third-Party Service Provider, including a Third Party Sender, that has agreed with a Participating DFI to process Entries must annually conduct, or have conducted, an audit of its compliance with these Rules in accordance with Appendix Eight (Rule Compliance Audit Requirements).

- *A Participating DFI must annually conduct, or have conducted, an audit of its compliance with these Rules in accordance with Appendix Eight (Rule Compliance Audit Requirements). A Third-Party Service Provider or a Third Party Sender that has agreed with a Participating DFI to process Entries must annually conduct, or have conducted, an audit of its compliance with these Rules in accordance with Appendix Eight (Rule Compliance Audit Requirements).*

#### ► **SECTION 1.6 Security Requirements (new section)**

*Each non-consumer Originator, Participating DFI, and Third-Party Service Provider must establish, implement, and update, as appropriate, policies, procedures, and systems with respect to the initiation, processing, and storage of Entries that are designed to:*

- (a) protect the confidentiality and integrity of Protected Information until its destruction;*
- (b) protect against anticipated threats or hazards to the security or integrity of Protected Information until its destruction; and*

*(c) protect against unauthorized use of Protected Information that could result in substantial harm to a natural person.*

*Such policies, procedures, and systems must include controls that comply with applicable regulatory guidelines on access to all systems used by such non-consumer Originator, Participating DFI, or Third-Party Service Provider to initiate, process, and store Entries.*

An ODFI may dishonor a Return Entry, with the exception of an IAT Return Entry, if:

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## ARTICLE TWO

### Rights and Responsibilities of ODFIs, Their Originators and Third-Party Senders

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#### ► **SUBSECTION 2.2.1 ODFI Verification of Originator or Third-Party Sender Identity (new subsection)**

*The ODFI must utilize a commercially reasonable method to verify the identity of an Originator or Third-Party Sender at the time the ODFI enters into an Origination Agreement with the Originator or Third-Party Sender.*

*SUBSECTION 2.4.1.8 The ODFI has Verified the Identity of Originator or Third-Party Sender That Uses an Unsecured Electronic Network (this subsection will be removed from the Rules)*

The ODFI has utilized a commercially reasonable method to establish the identity of an Originator or Third-Party Sender that entered into an Origination Agreement via an Unsecured Electronic Network.

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## ARTICLE EIGHT

### Definitions of Terms Used in These Rules

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#### ► **SECTION 8.67 “Protected Information”**

*the non-public personal information, including financial information, of a natural person used to create, or contained within, an Entry and any related Addenda Record.*

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## APPENDIX EIGHT

### Rule Compliance Audit Requirements

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#### **PART 8.2 Audit Requirements for All Participating DFIs**

Each Participating DFI, Third-Party Service Provider, and Third-Party Sender must conduct the following audit of ACH operations. These audit specifications apply generally to all Participating DFIs, regardless of a Participating DFI's status as an ODFI or RDFI.

- a. Verify that a Record of each Entry is retained for six years from the date the Entry was Transmitted, except as otherwise expressly provided in these Rules. Verify that a printout or reproduction of the information relating to the Entry can be provided, if requested by the Participating DFI's

customer or any other Participating DFI or ACH Operator that originated, Transmitted, or received the Entry. (Article One, subsections 1.4.1 and 1.4.2)

- b. When a Record required by these Rules is created or retained in an Electronic form, verify that the Electronic form (a) accurately reflects the information in the Record, and (b) is capable of being accurately reproduced for later reference, whether by Transmission, printing, or otherwise. (Article One, subsection 1.4.3)
- c. Verify that the Participating DFI conducted an audit of its compliance with the rules in accordance with Appendix Eight (Rule Compliance Audit Requirements) for the previous year. (Article One, subsection 1.2.2)
- d. Verify that required encryption or a secure session is used for banking information transmitted via an Unsecured Electronic Network. (Article One, subsection 1.6)
- e. Verify that the Participating DFI has reported and paid to the National Association (a) all annual fees, and (b) a per-Entry fee for each Entry that is Transmitted or received by the Participating DFI, including those Entries that are not processed through an ACH Operator but are exchanged with another non-affiliated Participating DFI. (Article One, subsection 1.10)
- f. Verify that the Participating DFI has conducted an assessment of the risks of its ACH activities and has implemented a risk management program on the basis of such an assessment. (Article One, subsection 1.2.4)
- g. *Verify that the Participating DFI has established, implemented and updated, as appropriate, security policies, procedures and systems as required by Article One, Section 1.6. (Article One, Section 1.6).*

## PART 8.4 Audit Requirements for ODFIs

In addition to the audit procedures outlined in Parts 8.1 (General Audit Requirements) and 8.2 (Audit Requirements for All Participating DFIs) of this Appendix Eight, ODFIs, Third-Party Service Providers, and Third-Party Senders must conduct an audit of the following relating to the origination of ACH entries:

- a. Verify that the ODFI has entered into Origination Agreements with all Originators or Third-Party Senders that bind the Originator or Third-Party Sender to these Rules; that authorize the ODFI to originate entries on behalf of the Originator or Third-Party Sender; that, within such agreements, the Originator or Third-Party Sender acknowledges that Entries may not be initiated that violate the laws of the United States; that includes any restrictions on types of Entries that may be originated; that includes that the Third-Party has entered into an agreement with each Originator/ and that such agreements include the right of the ODFI to terminate or suspend the agreement for breach of the Rules, and the right of the ODFI to audit the Originator's, the Third-Party Sender's and the Third-Party Sender's Originators' compliance with the Origination Agreement and the Rules. With respect to IAT Entries, verify that agreements contain all necessary provisions. (Article Two, subsections 2.2.1.1, 2.2.1.2 and 2.5.8.3)<sup>1</sup>
- b. Verify that, if applicable, the ODFI has entered into agreements with all Sending Points that Transmit Entries on the ODFI's behalf to an ACH Operator. (Article Two, subsection 2.2.1.3)
- c. Verify that the ODFI has assessed the risks of the Originator's or Third-Party Sender's ACH activity, and has established and implemented an exposure limit for each Originator or Third-Party Sender.

<sup>1</sup> Article Two, Subsections 2.2.1.1(d), (e) and (f) and 2.2.1.2(d), (e), (f) and (g) are applicable to Origination Agreements that were entered into on or after June 18, 2010.



Verify that the ODFI has established, implemented, and periodically reviewed procedures to monitor the Originator's or Third-Party Sender's origination and return activity across multiple Settlement Dates; enforce restrictions on the types of Entries that may be originated; and enforce the exposure limit. (Article Two, subsection 2.2.2)

- d. Verify that the ODFI accepts Return Entries and Extended Return Entries that comply with these Rules and that are Transmitted by the RDFI within the time limits established by these Rules. Verify that dishonored Return Entries are Transmitted within five banking days after the Settlement Date of the Return Entry and that contested dishonored Return Entries are accepted, as required by these rules. Verify that the ODFI is using return reason codes in an appropriate manner. (Article Two, subsections 2.12.1, 2.12.5.1, and 2.12.5.2; Appendix Four)
- e. Verify that information relating to NOCs and Corrected NOCs is provided to each Originator or Third-Party Sender within two Banking Days of the Settlement Date of the NOC or Corrected NOC in accordance with Appendix Five (Notification of Change). Verify that refused NOCs are Transmitted within fifteen (15) days of receipt of an NOC or corrected NOC. (Article Two, subsections 2.11.1 and 2.11.2)
- f. With the exception of XCK entries, verify that the ODFI provides to the RDFI, upon receipt of the RDFI's written request, the original, a copy, or other accurate Record of the Receiver's authorization with respect to a Consumer Account within ten banking days without charge. (Article Two, subsections 2.3.2.5 and 2.5.18.6)
- g. Verify that, when agreed to by the ODFI, late Return Entries are accepted in accordance with these rules. (Article Two, subsection 2.12.6)
- h. Verify that the ODFI has provided the Originator with proper notice to ensure compliance with UCC Article 4A with respect to ACH transactions. (Article Two, subsection 2.3.3.2)
- i. Verify that the ODFI has utilized a commercially reasonable method to establish the identity of each Originator or Third-Party Sender that uses an Unsecured Electronic Network to enter into an Origination Agreement with the ODFI. When an ODFI has a relationship with a Third-Party Sender rather than with an Originator directly, also verify that the Third-Party Sender has utilized a commercially reasonable method to establish the identity of each Originator that uses an Unsecured Electronic Network to enter into an Origination Agreement with the Third-Party Sender. (Article Two, subsections 2.4.1.8 and 2.15.2)
- i. *Verify that the ODFI has utilized a commercially reasonable method to verify the identity of each Originator or Third-Party Sender that enters into an Origination Agreement with the ODFI. When an ODFI has a relationship with a Third-Party Sender rather than with an Originator directly, also verify that the Third-Party Sender has utilized a commercially reasonable method to establish the identity of each Originator that enters into an Origination Agreement with the Third-Party Sender. (Article Two, subsection 2.2.1)*
- j. Verify that Reversing Entries and Reversing Files are initiated in accordance with the requirements of these Rules. (Article Two, sections 2.8 and 2.9)
- k. For BOC Entries, verify that the ODFI has (1) established and implemented commercially reasonable procedures to verify the identity of each Originator or Third-Party Sender of such entries; and (2) established and implemented procedures to document specific information with respect to each Originator, as required by these rules, and that, upon request, such information is provided to the RDFI within the required time frame. (Article Two, subsection 2.5.2.5)

- l. Verify that the ODFI has reported Return Rate information on each Originator or Third-Party Sender, as requested by the National Association. (Article Two, subsection 2.17.2)
- m. Verify that the ODFI has (1) registered its Direct Access status with the National Association; (2) obtained the approval of its board of directors, committee of the board of directors, or its designee for each Direct Access Debit Participant; (3) provided required statistical reporting for each Direct Access Debit Participant; and (4) notified the National Association of any change to the information previously provided with respect to any Direct Access Debit Participant. (Article Two, subsection 2.17.1)
- n. Verify that the ODFI has kept Originators and Third-Party Senders informed of their responsibilities under these rules. (Article Two, section 2.1)

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## Healthcare Payments via ACH

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*(Approved October 31, 2012 – Effective September 20, 2013)*

### SUMMARY

The Healthcare Payments via ACH changes amend the *NACHA Operating Rules* (“Rules”) to support health plans’ and healthcare providers’ use of the ACH Network for healthcare claims payments and payment related information. This amendment includes processing enhancements and transaction identification and formatting requirements specific to healthcare claim payments.

### Background

The Patient Protection and Affordable Care Act (ACA) requires the Department of Health and Human Services (HHS) to adopt a standard for Health Care Electronic Funds Transactions, as well as industry-vetted operating rules regarding the use of the standard transaction. On January 10, 2012, HHS issued an Interim Final Rule with Comment<sup>2</sup> that:

- 1) adopted the NACHA Corporate Credit or Debit Entry with Addenda Record (CCD+) as the standard for Healthcare EFT (electronic funds transfers);
- 2) adopted the ASC X12 835 TRN Segment (“reassociation number”)<sup>3</sup> as the standard for the data content of the Addenda Record of the CCD+; and
- 3) discussed NACHA’s role in the development and maintenance of the CCD+ standard through the *Rules*.

On August 10, 2012, HHS issued another Interim Final Rule with Comment<sup>4</sup> that adopted the Council on Affordable Quality Healthcare Committee on Operating Rules for Information Exchange (CORE) Phase III CORE EFT & ERA Operating Rule Set as the industry-vetted operating rules for EFT and ERA (electronic remittance advice). The CORE rule set includes five Operating Rules, of which the most critical for financial institutions is the Phase III CORE EFT & ERA Reassociation (CCD+/835) Rule. The EFT & ERA Reassociation Rule

- requires that the “provider must proactively contact its financial institution to arrange for the delivery of the CORE-required Minimum CCD+ Data Elements” and obligates health plans to proactively inform health care providers of this requirement during EFT enrollment; and
- describes the CORE-required Minimum CCD+ Data Elements as three fields in the ACH CCD record that are used for reassociation of the ACH Entry and the Electronic Remittance Advice (ERA): 1) the Effective Entry Date field (CCD Record 5, Field 9); 2) the Amount field (CCD Record 6, Field 6); and 3) the Payment Related Information field (CCD Record 7, Field 3).

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<sup>2</sup> Administrative Simplification: Adoption of Standards for Health Care Electronic Funds Transfers (EFTs) and Remittance Advice, <http://www.gpo.gov/fdsys/pkg/FR-2012-01-10/pdf/2012-132.pdf>

<sup>3</sup> The reassociation number does not constitute Protected Health Information as defined by HIPAA.

<sup>4</sup> Administrative Simplification: Adoption of Operating Rules for Health Care Electronic Funds Transfers (EFT) and Remittance Advice Transactions, <http://www.gpo.gov/fdsys/pkg/FR-2012-08-10/pdf/2012-19557.pdf>



## KEY COMPONENTS OF RULE AMENDMENT

The Healthcare Payments via ACH amendment consists of five components.

### ***Unique Identification of Health Care EFTs***

This amendment requires Originators to clearly identify CCD Entries that are Health Care EFT Transactions through the use of a specific identifier. The presence or absence of this healthcare-specific indicator provides RDFIs with certainty in distinguishing Health Care EFT Transactions from non-health care CCD Entries, allowing RDFIs the ability to comply with the *Rules* and specific processing requests from health care customers.

Specifically, the new rules require Originators of Health Care EFT Transactions to populate the Company Entry Description field of the CCD Entry with the value “HCCLAIMPMT”. RDFIs will be able to identify a CCD Entry with this standard description as a Health Care EFT Transaction. This descriptive statement is readable, providing healthcare providers with additional information about the payment. Finally, this standard description enables various ACH participants (including NACHA in cooperation with the ACH Operators) to have greater data available on the volume of Health Care EFT Transactions.

### ***Additional Formatting Requirements for Health Care EFT Transactions***

For each CCD Entry that contains the healthcare indicator, as described above, the Originator is required to ensure that the CCD Entry complies with the following formatting requirements, which are necessary to provide Receivers (healthcare providers) with clear identification of the source and purpose of the payment.

- *Company Name*

As is required for all ACH transactions, the Company Name field must be populated with information that is readily recognized by the Receiver, in this case a healthcare provider. The amendment requires an Originator of a Health Care EFT Transaction to populate the Company Name field of the CCD Entry with the name of the health plan. In situations where an organization is self-insured, this field could contain the name of the organization’s third-party administrator that is recognized by the healthcare provider and to which the healthcare provider submits its claims. Recognizing that there are other potential variations in health claims processing models, the overarching intent of NACHA’s existing Company Name Rule applies – that the Company Name field contain the name of the payor that is known and readily recognized by the Receiver (healthcare provider).

- *Addenda Record and Payment Related Information Requirements for Health Care EFT Transactions*

The new rule requires Originators to include an addenda record with each CCD Entry used for a Health Care EFT Transaction. The rule also requires Originators to populate the Payment Related Information field of the addenda record with the ANSI ASC X12 Version 5010 835 TRN (Reassociation Trace Number) data segment. The TRN data segment, along with additional information contained within the Entry, is needed by healthcare providers to reassociate the Health Care EFT Transaction with the electronic remittance advice (ERA) that is transmitted separately.

### ***Delivery of Payment Related Information (Reassociation Number)***

The Healthcare Payments via ACH amendment aligns with the existing rules regarding the delivery of payment related information.<sup>5</sup> The rule requires an RDFI to provide or make available, either automatically

<sup>5</sup> Among ACH participants, the Payment Related Information is commonly referred to as the “remittance information.” For a CCD Entry that is a Health Care EFT, the Payment Related Information will always contain the “reassociation number” (i.e., the ASC X12 835 TRN Segment), and not detailed remittance information that contains Protected Health Information. Readers should not confuse the common ACH usage of “remittance information” with the terms “remittance advice” or “electronic remittance advice (ERA)” as used in the health care industry to mean the detailed explanation of benefits.

(if such a service is established by the RDFI) or upon the request of a Receiver that is a healthcare provider, all information contained within the Payment Related Information field of an Addenda Record transmitted with a CCD Entry that is a Health Care EFT Transaction. The RDFI is required to provide or make available the Payment Related Information no later than the opening of business on the RDFI's second Banking Day following the Settlement Date of the Entry. The rule also requires the RDFI to offer or make available to the healthcare provider an option to receive or access the Payment Related Information via a secure, electronic means that provides a level of security that, at a minimum, is equivalent to 128-bit RC4 encryption technology.

Under this rule, an RDFI's obligation to provide healthcare EFT payment related information upon the Receiver's request is very similar to current requirements for other business-to-business payments. The rule, however, explicitly incorporates language regarding the "automatic" provision or delivery of payment related information transmitted with a Health Care EFT Transaction as an option for RDFIs. Any RDFI that decides to automatically provide this information to Health Care Provider customers, without waiting for it to be requested, would be in compliance with the rule. The inclusion of the term "automatically" as an option does not require the RDFI to proactively deliver the information, but recognizes that there are RDFIs that, either now or in the future, automatically provide the payment related information to their customers through online access to their account information or other methods. While automatic delivery of payment related information has always been acceptable for CCD Entries, the addition of the term "automatically" at this time recognizes this capability, especially as relates to health care, and acknowledges that the automatic delivery of the data is in compliance with the new rule.

The requirement that an RDFI must offer, or make available, to Health Care Providers an option to receive the healthcare payment related information electronically via a secure electronic delivery channel adopts an encryption standard that is consistent with other data security requirements under the *NACHA Operating Rules* (see Article One, Section 1.6) regarding the secure transmission of banking information over unsecured electronic networks. It is consistent with CAQH CORE rules regarding "connectivity" via the public Internet using SSL/HTTPS-level security. Examples of a secure, electronic delivery channel can include SSL or HTTPS secure e-mail, online account access, online reports, or file transmissions that meet the 128-bit RC4 encryption technology minimum standard. Mail, unsecured fax or unsecured e-mail of payment related information is not considered a secure, electronic delivery method.

Finally, the rule clarifies that the new reassociation information delivery requirements apply to Health Care EFT Transactions that are sent to Non-Consumer Accounts of Receivers. While the existing rules have always been based on the presumption that SEC Codes are used correctly (in this case, that CCDs are business-to-business transactions and directed to business accounts), the rule clarifies that RDFIs will not incur new obligations if Receivers do not use appropriately designated Non-Consumer Accounts to receive Health Care EFT Transactions.

#### ***Addition of New EDI Data Segment Terminator***

The Healthcare Payments via ACH changes provide for the use of a second data segment terminator, the tilde ("~"), to any data segments carried in the Addenda Record of the CCD Entry.<sup>6</sup> As the tilde is a valid character for ACH Entries, it should already be recognized as such by ACH processing software. EDI translation software, however, might need to be modified to recognize the tilde as a valid data segment terminator for the CCD Addenda Record and NACHA-approved banking conventions.

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<sup>6</sup> Appendix Three of the *NACHA Operating Rules* currently defines the asterisk ("\*") as the delimiter between data segments, and the backslash ("\") as the terminator indicating the end of a data segment included within the addenda records of ACK, ATX, CCD, CIE, ENR, IAT, PPD, and WEB Entries. The proposed addition of the tilde as a valid data segment terminator for health care CCD Entries would also apply to all of these SEC Codes to ensure consistent processing of remittance information.

**Healthcare Terminology within the NACHA Operating Rules**

This rule expands the defined terms within the *NACHA Operating Rules* to 1) incorporate four health care-specific concepts within their scope, and 2) define a Non-Consumer Account to ensure appropriate application of health care-specific rules by ACH participants.

*Health Care EFT Transaction:* a CCD Entry originated by a Health Plan to a Health Care Provider with respect to a health care claim. Under this definition, a Health Care EFT Transaction must include one addenda record that contains an ASC X12 Version 5010 835 TRN (Reassociation Trace Number) data segment within the Payment Related Information field.

*Health Plan:* an individual or group plan that provides, or pays the cost of, medical care.

*Health Care Provider:* a provider of medical or health services, and any other person or organization who furnishes, bills, or is paid for health care in the normal course of business.

*CORE-required Minimum CCD+ Reassociation Data Elements:* information transmitted by a Health Plan to a Health Care Provider for the purpose of re-associating a Health Care EFT Transaction with an electronic remittance advice. The CORE-required Minimum CCD+ Reassociation Data Elements include the information contained within the Effective Entry Date field, the Amount field, and the Payment Related Information field of the CCD Entry.

In addition, this adds a definition for Non-Consumer Account to assist ACH Participants in properly applying rules governing Health Care EFT Transactions. The term Non-Consumer Account is used to clarify the types of accounts for which the requirements to provide or make available payment related information apply.

*Non-Consumer Account:* an account held by a Participating DFI and established by an Organization primarily for commercial purposes. A Non-Consumer Account may be established by a natural person if the Participating DFI's records indicate that the account is primarily for commercial and not for personal, family, or household purposes (i.e., it is not a Consumer Account).

**IMPACT TO PARTICIPANTS**

**Receivers:** Receivers (Health Care Providers) should not incur any direct costs as a result of the adoption of these changes. Existing bank accounts can readily accept the receipt of ACH credit payments. Health Care Providers that elect to upgrade systems to automatically use the TRN Reassociation Data Segment to reassociate the ACH payment with the electronic remittance advice transmitted separately may incur some transition costs.

**RDFIs:** RDFIs that do not currently offer a secure, electronic means of delivering payment related information to their business customers will need to establish a means of doing so and make such access available to Health Care Providers receiving Health Care EFT Transactions. RDFIs with EDI translation software also may incur programming costs to ensure that the tilde is recognized as a valid data segment terminator for ACH entries.

**ODFIs and Originators of Health Care EFT Transactions:** These participants may incur one-time programming costs if they choose to automate the formatting of Health Care EFT Transactions to include the required Company Entry Description and the required addenda record.

## TECHNICAL SUMMARY

Below is a summary of the impact of this rule change on the *NACHA Operating Rules*. Sections of the *Rules* that are affected by this amendment are also included below and reflect rule language as it will read upon implementation.

- *Article Two, Subsection 2.5.3 (General Rule for CCD Entries – Corporate Credit or Debit Entry)* - identifies Health Care EFT Transactions as CCD Entries having a mandatory addenda record in which required health care payment related information must be included.
- *Article Three, Subsection 3.1.5.3 (RDFI Must Provide Payment-Related Information to Receivers of CCD, CTX, CIE and IAT Entries to Non-Consumer Accounts)* -
  - requires RDFIs to provide or make available, either automatically or upon the request of a Receiver that is a Health Care Provider, all information contained within the Payment Related Information field of an Addenda Record transmitted with a Health Care EFT Transaction.
  - requires RDFIs to offer Health Care Provider Receivers a secure, electronic delivery channel for the receipt of health care payment related information.
  - adds language recognizing that some RDFIs automatically provide their business customers with payment related information.
- *Article Eight, Subsections 8.19, 8.44, 8.45, 8.46, and 8.57* - new subsections to define the following terms within the *Rules*:
  - CORE-required Minimum CCD+ Reassociation Data Elements
  - Health Plan
  - Health Care EFT Transaction
  - Health Care Provider
  - Non-Consumer Account
- *Appendix One, Part 1.2 (Data Specifications for ACH Records)* - requires the Company Entry Description specific to Health Care EFT Transactions to be presented in upper case characters.
- *Appendix Three, Subpart 3.1.8 (Sequence of Records for CCD Entries)* - adds footnotes specific to Health Care EFT Transactions to the CCD record layouts.
- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* - expands the descriptions of the following fields to accommodate formatting requirements specific to Health Care EFT Transactions:
  - Addenda Record Indicator
  - Company Entry Description
  - Company Name
  - Payment Related Information

**Implementation Date: September 20, 2013**

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*As approved October 31, 2012, effective September 20, 2013, the Rules are modified as follows for the rule changes related to Healthcare Payments via ACH:*

## ARTICLE TWO

Rights and Responsibilities of ODFIs, Their Originators  
and Third-Party Senders**SUBSECTION 2.5.3 General Rule for CCD Entries (Corporate Credit or Debit Entry)**

A CCD Entry is originated by an Organization to or from the account of that Organization or another Organization. A CCD Entry may be a credit Entry or a debit Entry, and may provide payment related information in one Addenda Record. A CCD Entry may also be a Non-Monetary Entry that carries payment related information in one Addenda Record.

- *A CCD Entry that is a Health Care EFT Transaction must include one Addenda Record that contains the ASC X12 835 TRN (Reassociation Trace Number) data segment in the Payment Related Information field.*

## ARTICLE THREE

## Rights and Responsibilities of RDFIs and Their Receivers

**SUBSECTION 3.1.5.3 RDFI Must Provide Payment-Related Information to Receivers of CCD, CTX, CIE and IAT Entries to Non-Consumer Accounts**

Upon the request of a Receiver, an RDFI must provide to the Receiver all information contained within the Payment Related Information field of an Addenda Record(s) Transmitted with a CCD or CTX Entry, or a CIE or IAT Entry to a non-Consumer Account. The RDFI must provide this information by the opening of business on the RDFI's second Banking Day following the Settlement Date of the Entry.

- *Upon the request of a Receiver, an RDFI must provide to the Receiver all information contained within the Payment Related Information field of an Addenda Record(s) Transmitted with a CCD Entry that is not a Health Care EFT Transaction, a CTX Entry, or a CIE or IAT Entry to a Non-Consumer Account. The RDFI must provide this information by the opening of business on the RDFI's second Banking Day following the Settlement Date of the Entry.*

*For a Health Care EFT Transaction to a Non-Consumer Account, an RDFI must, either automatically or upon the request of a Receiver that is a Health Care Provider, provide or make available all information contained within the Payment Related Information field of the Addenda Record Transmitted with the Health Care EFT Transaction. The RDFI must provide or make available the Payment Related Information by the opening of business on the RDFI's second Banking Day following the Settlement Date of the Entry. The RDFI must offer or make available to the Health Care Provider an option to receive or access the Payment Related Information via a secure, electronic means that provides a level of security that, at a minimum, is equivalent to 128-bit RC4 encryption technology.*

## ARTICLE EIGHT

Definitions of Terms Used in These Rules

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► **SECTION 8.19 “CORE-required Minimum CCD+ Reassociation Data Elements” (new section)**

*information transmitted by a Health Plan to a Health Care Provider in a Health Care EFT Transaction for the purpose of reassociating the Health Care EFT Transaction with an electronic remittance advice. The CORE-required Minimum CCD+ Reassociation Data Elements include the information contained within the Effective Entry Date field, the Amount field, and the Payment Related Information field of the CCD Entry.*

► **SECTION 8.44 “Health Plan” (new section)**

*an individual or group plan (including a self-insurance plan) that provides, or pays the cost of, medical care (i.e., the meaning of “Health Plan” assigned at 45 CFR 160.103, as modified from time to time).*

► **SECTION 8.45 “Health Care EFT Transaction” (new section)**

*a CCD Entry originated by a Health Plan to a Health Care Provider with respect to a health care claim. A Health Care EFT Transaction must be accompanied by one Addenda Record that contains the ASC X12 835 TRN (Reassociation Trace Number) data segment in the Payment Related Information field.*

► **SECTION 8.46 “Health Care Provider” (new section)**

*a provider of medical or health services, and any other person or organization who furnishes, bills, or is paid for health care in the normal course of business (i.e., the meaning of “Health Care Provider” assigned at 45 CFR 160.103, including a provider of certain services specified in the regulation, as modified from time to time).*

► **SECTION 8.57 “Non-Consumer Account” (new section)**

*an account held by a Participating DFI and established by an Organization primarily for commercial purposes. A Non-Consumer Account may be established by a natural person if the Participating DFI’s records indicate that the account is primarily for commercial and not for personal, family, or household purposes (i.e., it is not a Consumer Account).*

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APPENDIX ONEACH File Exchange Specifications

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**PART 1.2 Data Specifications for ACH Records**

The following table shows the data specifications for ACH Records.



TYPE OF FIELD	ALPHABETIC/ ALPHAMERIC	NUMERIC
<b>Valid Characters</b>	0-9, A-Z, a-z, space, EBCDIC values greater than hexadecimal "3F", ASCII values greater than hexadecimal "1F"	0-9
<b>Justification</b>	Left	Right
<b>Empty Field Handling</b>	Space filled	Zero filled
<b>Special Notes</b>	Certain fields require the use of UPPER CASE characters – see below.	Must be unsigned (Neither positive (+) or negative (–) signage.)

UPPER CASE characters must be used for all of the following:

- all alphabetic characters within the Standard Entry Class Code field;
- all alphabetic characters within the File ID Modifier field;
- all alphabetic characters within the Change Code and Refused COR Code fields;
- all alphabetic characters within the Return Reason Code, Dishonored Return Reason Code, and Contested Dishonored Return Reason Code fields;
- Company Entry Description fields containing the words "REVERSAL," "RETURN FEE," "RECLAIM," "NONSETTLED," "AUTOENROLL" (for ENR entries), "REDEPCHECK" (for RCK entries), and "NO CHECK" (for XCK entries); and
- ▶ *• Company Entry Description fields containing the words "REVERSAL," "RETURN FEE," "RECLAIM," "NONSETTLED," "AUTOENROLL" (for ENR entries), "REDEPCHECK" (for RCK entries), "NO CHECK" (for XCK entries), and "HCCLAIMPMT" (for Health Care EFT Transactions); and*
- Company Name fields containing the words "CHECK DESTROYED" (for XCK entries).

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## APPENDIX THREE

### ACH Record Format Specifications

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#### ***SUBPART 3.2.2 Glossary of Data Elements***

**Addenda Record Indicator:** 1 Position - Entry Detail Record and Corporate Entry Detail Record – Mandatory (ACK, ADV, ARC, ATX, BOC, CCD, CIE, CTX, DNE, ENR, IAT, MTE, POP, POS, PPD, RCK, SHR, TEL, TRC, TRX, WEB, XCK, refused ACK, refused ATX, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

This field indicates the existence of an Addenda Record.

*Code Values:*

- 0 No Addenda Record follows the Entry
- 1 One or more Addenda Records follow the Entry

► *CCD: When used for a Health Care EFT Transaction, the value of this field must be “1.”*

*IAT:* The value of this field for all IAT Entries, including IAT Prenotification Entries, will always be “1.”

*Zero dollar CCD, CTX, and IAT Entries, Notification of Change, Refused Notification of Change, Return, Dishonored Return, Contested Dishonored Return, DNE, ENR, MTE, POS, SHR, and TRX Entries:* The value of this field will always be “1”. This is not applicable to MTE, POS, SHR, or TRX Prenotifications.

**Company Entry Description:** 10 Positions – Company/Batch Header Record – Mandatory (all batches)

The Originator establishes the value of this field to provide the Receiver with a description of the purpose of the Entry. For example, “Gas bill,” “Reg. Salary,” “ins. prem.,” “Soc. Sec.,” “DTC,” “Trade Pay,” “PURCHASE,” etc.

This field must contain the word “NONSETTLED” when the batch contains Entries that could not settle.

This field must contain the word “RECLAIM” when the batch contains Reclamation Entries.

This field must contain the words “RETURN FEE” when the batch contains Return Fee Entries

This field must contain the word “REVERSAL” when the batch contains Reversing Entries.

*ADV:* The Originator, i.e., the Originating ACH Operator, uses this field to describe to the institution receiving the ADV File the type of activity to which the accounting information relates.

► *CCD: This field must contain the word “HCCLAIMPMT” when the batch contains Health Care EFT Transactions.*

*ENR:* This field must contain the word “AUTOENROLL” when the batch contains Automated Enrollment Entries.

*RCK:* This field must contain the word “REDEPCHECK”.

*TRX:* This field contains the routing number of the keeper.

*XCK:* This field must contain the words “NO CHECK”.

**Company Name:** 16 Positions – Company/Batch Header Record – Mandatory (all batches except IAT)

This field identifies the source of the Entry and is used for descriptive purposes for the Receiver. Except as otherwise noted below, this field must contain the name by which the Originator is known to and readily recognized by the Receiver of the Entry.

In a transaction in which the Originator of a debit Entry is not the payee of the transaction (the party to which payment is ultimately being directed), the Company Name field of the debit Entry must contain the name by which the payee is known to and readily recognized by the Receiver of the Entry. In a



transaction in which the Originator of a credit Entry is not the payor of the transaction (the party from which payment is ultimately being directed), the Company Name field of the credit Entry must contain the name by which the payor is known to and readily recognized by the Receiver of the Entry.

For Return Fee Entries, this field must contain the same name of the Originator as identified in the Company Name field of the underlying Entry. For a Return Fee Entry based on the return of a Check, the Company Name field must contain the name of the payee of the Check.

*ADV:* The ACH Operator is both the Originator and the ODFI. The ACH Operator originating the ADV File identifies itself by name in this field.

*ARC, BOC:* This field identifies the payee of the Eligible Source Document or the payee name indicated on the bill or invoice.

► *CCD:* For a Health Care EFT Transaction, this field must contain the name of the Health Plan originating the Entry, or, where an organization is self-insured, the name of the organization's third-party administrator that is recognized by the Health Care Provider and to which the Health Care Provider submits its claims.

*CIE:* This field contains the bill payment service provider's name.

*MTE:* This field identifies the owner of the terminal where the transaction was initiated.

*POP, POS, SHR:* This field identifies the merchant with whom the Receiver initiated the transaction.

*RCK:* This field identifies the Originator of the RCK Entry, which is the original payee on the face of the Check.

*TRC:* This field identifies the name of the keeper.

*XCK:* This field must contain the words "CHECK DESTROYED" (left justified).

**Payment Related Information:** 80 Positions – Addenda Record – Optional (ACK, ATX, CCD, CIE, CTX, DNE, ENR, IAT, PPD, TRX, WEB)

In the Addenda Records of ACK, ATX, CCD, CIE, ENR, IAT, PPD, and WEB Entries, an asterisk ("\*") must be used as the delimiter between the data elements, and the backslash ("\") must be used as the terminator between the data segments.

► *In the Addenda Records of ACK, ATX, CCD, CIE, ENR, IAT, PPD, and WEB Entries, an asterisk ("\*") must be used as the delimiter between the data elements, and the backslash ("\") or tilde ("~") must be used as the terminator at the end of a data segment.*

*ACK, ATX:* This field contains the ANSI ASC X12 REF (Reference) data segment. This REF segment is used to convey the Identification Number contained within the original CCD or CTX Entry, and/or other information of significance to the Originator.

*CCD, PPD, WEB:* Addenda Records contain payment related ANSI ASC X12 data segments or NACHA endorsed banking conventions (i.e., Tax Payment, Third-Party Tax Payments, Child Support, or Electronic Dealer Drafting).

- *CCD, PPD, WEB: Addenda Records contain payment related ANSI ASC X12 data segments or NACHA endorsed banking conventions (i.e., Tax Payment, Third-Party Tax Payments, Child Support, or Electronic Dealer Drafting). For CCD Entries that are Health Care EFT Transactions, this field must contain the ASC X12 835 TRN (Reassociation Trace Number) data segment, which conveys the Reassociation Trace Number used by the Health Care Provider to match the payment to remittance data.*

*Example:* TRN\*1\*12345\*1512345678\*999999999\

*Example:* TRN\*1\*12345\*1512345678\*999999999~

*CIE:* This field contains payment related ANSI ASC X12 data segments to further identify the payment or Transmit additional remittance information.

For Example:

N1\*BT\*JohnDoe\N3\*12MainStreet\N4\*21070\

*CTX:* This field contains information formatted in accordance with the syntax of ANSI ASC X12.5 and X12.6, an ASC X12 transaction set containing a BPR or BPS data segment, or payment related UN/EDIFACT syntax.

ANSI ASC X12.5 (“Interchange Control Structure”) means the standard to define the control structures for the electronic interchange of business transactions encoded in ASC X12-based syntax. This standard provides the interchange envelope of a header and trailer for the electronic interchange through a data transmission, a structure to acknowledge the receipt and processing of this envelope, and optional, interchange-level service request structures.

ANSI ASC X12.6 (“Application Control Structure”) means the standard used to define the structure of business transactions for computer-to-computer interchange. This structure is expressed using a symbolic representation of X12 data in terms of both the design and use of X12 structures, independent of the physical representation (e.g., character set encoding).

BPR or BPS Data Segment (“Beginning Segment for Payment Order/Remittance Advice”) means the beginning segment for the payment order/remittance advice used in ASC X12-based syntax to indicate the beginning of a payment-related transaction set that contains the necessary banking information to process the transaction.

*DNE:* Addenda Records contains the following NACHA endorsed banking convention starting in position 04:

DATE OF DEATH\*MMDDYY\*CUSTOMERSSN\*

\*\*\*\*\*AMOUNT\*\$\$\$\$.cc\

The date of death always appears in positions 18-23. If the Social Security Number (SSN) is not available, positions 38-46 contain zeros. The amount of the expected beneficiary payment always begins in position 55.

*ENR:* This field contains the following NACHA endorsed banking convention:

All information in this field pertains to the account holder on whose behalf the Automated Enrollment Entry is initiated.

*Transaction Code* – This field contains the Transaction Code of the account holder’s account. This field contains “22” (Demand Credit), “27” (Demand Debit), “32” (Savings Credit), or “37” (Savings Debit). (2 positions)

*Receiving DFI Identification Number* -- This field contains the routing number used to identify the DFI at which the account holder maintains its account. (8 positions)

*Check Digit* – This field contains the check digit pertaining to the routing number for the DFI at which the account holder maintains its account. (1 position)

*DFI Account Number* – This field contains the account holder’s account number. (1 - 17 positions)

*Individual Identification Number/Identification Number* – For automated enrollments initiated on behalf of consumers, this field contains the consumer’s Social Security Number. For automated enrollments initiated on behalf of companies, this field contains the company’s Taxpayer Identification Number. (9 positions)

*Individual Name (Surname)/Company Name* – This field contains the consumer’s surname or the first fifteen characters of the Company Name. (1 - 15 positions)

*Individual Name (First Name)/Company Name* – This field contains the consumer’s first name or the next seven characters of the Company Name. (1 - 7 positions).

*Representative Payee Indicator/Enrollee Classification Code* – For enrollments for Federal Government benefit payments, this field contains “0” (zero) meaning “no” or “1” (one) meaning “yes” to denote whether the authorization is being initiated by someone other than the named beneficiary.

For all other enrollments, this field contains “A” to indicate that the enrollee is a consumer, or “B” to indicate that the enrollee is a company. (1 position)

For Example:

22\*12200004\*3\*123987654321\*777777777\*DOE\*JOHN\*0\

22\*12200004\*3\*987654321123\*876543210\*ABCCOMPANY\*\*B\

27\*12200004\*3\*987654321123\*876543210\*ABCELECTRONICIN\*DUSTRIE\*B\

*IAT*: This field contains 80 characters of payment related information. (Note: A maximum of two optional Addenda Records may be used for IAT remittance information.)

When the Transaction Type Code Field within the First IAT Addenda Record contains ARC, BOC, or RCK, this field must contain the Check Serial Number starting in position 04:

CHECK SERIAL NUMBER\

For example: 3349809002\

When the Transaction Type Code Field within the First IAT Addenda Record contains POP, this field must contain the following NACHA-endorsed banking convention starting in position 04:

CHECK SERIAL NUMBER (MAXIMUM OF 9 CHARACTERS)\*TERMINAL CITY (MAXIMUM OF 4 CHARACTERS)\*TERMINAL STATE/FOREIGN COUNTRY (2 CHARACTERS)\

For example: 123456789\*PARI\*FR\

When the Transaction Type Code Field within the First IAT Addenda Record contains MTE, POS, or SHR, this field must contain the following NACHA-endorsed banking convention starting in position 04:

TERMINAL IDENTIFICATION CODE(MAXIMUM OF 6 CHARACTERS)\*TERMINAL LOCATION  
(MAXIMUM OF 27 CHARACTERS)\*TERMINAL CITY(MAXIMUM OF 15 CHARACTERS)  
\*TERMINAL STATE/FOREIGN COUNTRY  
(2 CHARACTERS)\

For example:

200509\*321 EAST MARKET STREET\*ANYTOWN\*VA\  
367802\*10TH & VINE STREETS\*LONDON\*UK\

*TRX:* This field contains information formatted in accordance with National Association for Check Safekeeping syntax.

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#### APPENDIX THREE

### ACH Record Format Specifications

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- *Please refer to the following Sequence of Records for CCD Entries for changes related to Health Care EFT Transactions.*

## SUBPART 3.1.8 Sequence of Records for CCD Entries

## CCD ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	IDENTIFICATION NUMBER	RECEIVING COMPANY NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O	R	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$&¢	Alphanumeric	Alphanumeric	Alphanumeric	Numeric <sup>1</sup>	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

## CCD ADDENDA RECORD

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	M
Contents	'7'	'05'	Alphanumeric <sup>2</sup>	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94

<sup>1</sup> For Health Care EFT Transactions, the Addenda Record Indicator of the CCD Entry must always contain a value of "1."

<sup>2</sup> For Health Care EFT Transactions, the Payment Related Information Field of the CCD Entry Addenda Record must always contain the ASC X12 Version 5010 835 TRN Segment.



# ARTICLE ONE

## General Rules

### SECTION 1.1 Application of Rules

These Rules apply to all Entries Transmitted through one or more ACH Operators, except as provided in this Section 1.1.

#### ***SUBSECTION 1.1.1 Conflicting Association Rules Govern***

These Rules may be superseded by any conflicting operating rules of an Association by which an ODFI and RDFI have agreed to be bound.

#### ***SUBSECTION 1.1.2 Express Agreement of Federal Government Required***

These Rules apply to Entries originated by a United States Government entity or agency only if the United States Government has expressly agreed to be bound by these Rules under 31 C.F.R. Part 210.

#### ***SUBSECTION 1.1.3 General and Specific Rules***

If there is a conflict in these Rules between a general provision applicable to all Entry types and a specific provision applicable to a specific Entry type, the provision for the specific Entry type governs. Rules of general application are subject to exceptions stated within these Rules. Specific provisions, obligations, and exceptions for specific SEC Codes or other Entry types are described in the sections and subsections for those Entry types.

### SECTION 1.2 Participating DFIs Must Comply With Rules

A Participating DFI must comply with these Rules and warrants that it is legally able to comply with all applicable requirements of these Rules. Only Participating DFIs may be ODFIs and RDFIs. A Participating DFI is responsible for its Third-Party Service Providers' compliance with these Rules.

#### ***SUBSECTION 1.2.1 Effect of Illegality***

Nothing in these Rules requires a Participating DFI to debit or credit an account or to transfer funds or take other action required by the Rules if the

Participating DFI reasonably believes that taking such action in connection with a specific Entry would violate applicable U.S. Legal Requirements, including the obligations of the Participating DFI under programs administered by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and the Financial Crimes Enforcement Network (FinCEN). A Participating DFI must comply with all other requirements of these Rules with respect to all other Entries or other aspects of the same Entry, including the timely transmission of Return Entries and the availability of funds from Entries.

#### ***SUBSECTION 1.2.2 Audits of Rules Compliance***

A Participating DFI must annually conduct, or have conducted, an audit of its compliance with these Rules in accordance with Appendix Eight (Rule Compliance Audit Requirements). A Third-Party Service Provider, including a Third Party Sender, that has agreed with a Participating DFI to process Entries must annually conduct, or have conducted, an audit of its compliance with these Rules in accordance with Appendix Eight (Rule Compliance Audit Requirements).

#### ***SUBSECTION 1.2.3 Rules Enforcement***

A Participating DFI is subject to, and must comply with, the Rules enforcement procedures of the National Association contained in Appendix Ten (Rules Enforcement).

#### ***SUBSECTION 1.2.4 Risk Assessments***

A Participating DFI must:

- (a) conduct, or have conducted, an assessment of the risks of its ACH activities;
- (b) implement, or have implemented, a risk management program on the basis of such an assessment; and,
- (c) comply with the requirements of its regulator(s) with respect to such assessment and risk management program.

#### ***SUBSECTION 1.2.5 Compensation for Errors***

The settlement of claims for compensation between Participating DFIs may be governed by the procedures contained in Appendix Seven (Compensation Rules).



**SUBSECTION 1.2.6 Arbitration**

The settlement of disputes between Participating DFIs arising under these Rules may be governed by the procedures contained in Appendix Nine (Arbitration Procedures).

**SECTION 1.3 Amending, Suspending and Interpreting the Rules****SUBSECTION 1.3.1 Procedures for Amending the Rules**

These Rules may be amended by action of the eligible voting members of the National Association in accordance with the procedures set forth in the bylaws of the National Association. These Rules may be amended by a vote of either (a) two-thirds of the total number of votes cast by eligible members, or (b) three-quarters of the number of members eligible to vote, unless, in either case, two-thirds of the eligible members of a membership class vote against the amendment. Amendments must be submitted to the eligible voting members by mail, fax, or e-mail. A member's ballot must be received by the National Association no later than fifteen Business Days after the date of the ballot, or such later date as is specified in connection with the ballot. Each approved amendment will become effective on the date indicated in the ballot on the amendment.

**SUBSECTION 1.3.2 Temporary Adoption, Suspension, or Change of Effective Date of Rules**

The Board of Directors of the National Association may approve an amendment to these Rules, suspend an amendment to these Rules, or change the effective date of an amendment to these Rules if it determines that such action is in the best interests of the National Association and its members. Any such action taken by the Board of Directors will remain effective as provided by the Board of Directors until the earlier of (a) further action by the Board of Directors, or (b) action taken by the eligible voting members to amend the Rules in accordance with Subsection 1.3.1 (Procedures for Amending the Rules).

**SUBSECTION 1.3.3 Official Interpretation of the Rules**

The Board of Directors of the National Association may issue written interpretations of these Rules that are consistent with the express language of

these Rules. Such written interpretations apply and are binding as if they were set forth in full in these Rules and were adopted in accordance with Subsection 1.3.1 (Procedures for Amending the Rules).

**SUBSECTION 1.3.4 Construction Rules**

Words in a singular number include the plural, and in the plural include the singular, unless the context otherwise requires. The term "section" refers to a subdivision of an Article containing a two-digit number (e.g., "Section 3.2"), and the term "subsection" refers to a subdivision of a section containing a three or four-digit number (e.g., "Subsection 3.2.1"). The term "part" refers to a subdivision of an Appendix (e.g., "Part 3.2"), and the term "subpart" refers to a subdivision of a part (e.g., "Subpart 3.2.1"). Terms that are defined in Article Eight (Definitions of Terms Used in These Rules) and file format data elements contained in Appendix Three, Subpart 3.2.2 (Glossary of Data Elements) are capitalized (e.g., "Entry" and "Addenda Type Code") throughout these Rules.

**SUBSECTION 1.3.5 Headings and Captions**

Headings and captions in these Rules are intended only for convenience of reference and have no substantive effect.

**SECTION 1.4 Records****SUBSECTION 1.4.1 Retention Requirement for Records of Entries**

A Participating DFI must retain a Record of each Entry for six years from the date the Entry was Transmitted, except as otherwise expressly provided in these Rules.

**SUBSECTION 1.4.2 Provision Requirement for Records of Entries**

A Participating DFI must, if requested by its customer or any other Participating DFI or ACH Operator that originated, Transmitted, or received the Entry, provide the requester with a printout or reproduction of the information relating to the Entry. A Participating DFI may impose a reasonable charge for providing such information.



### ***SUBSECTION 1.4.3 Electronic Record Creation and Retention***

A Record required by these Rules to be in writing may be created or retained in an Electronic form that (a) accurately reflects the information in the Record, and (b) is capable of being accurately reproduced for later reference, whether by Transmission, printing, or otherwise.

### ***SUBSECTION 1.4.4 Electronic Signatures***

A Record that is required by these Rules to be signed or similarly authenticated may be signed with an Electronic Signature in conformity with the terms of the Electronic Signatures in Global and National Commerce Act (15 U.S.C. § 7001, et seq.), including the provisions that reference state versions of the Uniform Electronic Transactions Act, and in a manner that evidences the identity of the Person who signed and that Person's assent to the terms of the Record.

## **SECTION 1.5 Excused Delay**

Delay by a Participating DFI or ACH Operator beyond the time limits prescribed or permitted by these Rules is excused to the extent the delay was caused by the interruption of communication or computer facilities, provided that the delay is beyond the reasonable control of the Participating DFI or ACH Operator. This may include delays caused by war or act of God, provided that the Participating DFI or ACH Operator exercises such diligence as the circumstances require. Delay caused by the general failure of a Participating DFI's, or its Third-Party Service Provider's, computer facilities or other equipment does not constitute an excused delay and should be addressed within the Participating DFI's contingency planning policies. Delay by an ACH Operator beyond the time limits prescribed or permitted by these Rules also is excused to the extent the delay was caused by the interruption or the suspension of payment by, or unavailability of funds from, a Participating DFI or another ACH Operator.

## **SECTION 1.6 Secure Transmission of ACH Information Via Unsecured Electronic Networks**

Banking information related to an Entry that is Transmitted via an Unsecured Electronic Network must, at all times from the point of data entry and through the Transmission of such banking

information, be either encrypted or Transmitted via a secure session, in either case using a commercially reasonable technology that provides a level of security that, at a minimum, is equivalent to 128-bit RC4 encryption technology. Banking information includes any Entry, routing number, account number, PIN or other identification symbol. This Section applies to Transmissions between:

- (a) a Receiver and an Originator;
- (b) an Originator and an ODFI;
- (c) an ODFI and an ACH Operator;
- (d) an ACH Operator and an RDFI; and
- (e) an Originator, ODFI, RDFI, or ACH Operator and a Third-Party Service Provider.

Transmissions of banking information over an Unsecured Electronic Network by means of voice or keypad inputs from a wireline or wireless telephone to a live operator or voice response unit are not subject to this section.

## **SECTION 1.7 Choice of Law**

These Rules and the rights and obligations of a party with regard to a credit Entry subject to Article 4A of the Uniform Commercial Code are construed in accordance with and governed by the laws of the State of New York, unless otherwise provided in an agreement by which the relevant parties are bound.

## **SECTION 1.8 Beneficiaries of the Rules**

Each Participating DFI, ACH Operator, Association, and the National Association (including its Board, committees, and panels) are intended third-party beneficiaries of the representations, warranties, and covenants of each other Participating DFI and ACH Operator under these Rules. Nothing in these Rules is intended to, and nothing in these Rules is implied to, give any legal or equitable right, remedy, or claim to any other entity, including to any Originator, Receiver, Third-Party Service Provider, or Third-Party Sender.

## **SECTION 1.9 Protection for the National Association from Frivolous Lawsuits**

A Participating DFI that commences a legal proceeding against the National Association must pay, on demand, the attorneys' fees and costs

incurred by the National Association in connection with the proceeding if judgment is rendered in the National Association's favor or if the National Association is otherwise dismissed from the proceeding.

## **SECTION 1.10 Network Administration Fees**

A Participating DFI agrees to pay the National Association (a) an annual fee, and (b) a per-Entry fee for each Entry that is Transmitted or received by the Participating DFI, including those Entries that are not processed through an ACH Operator but are exchanged with another non-affiliated Participating DFI. The annual and per-Entry fees are established from time-to-time by the Board of Directors of the National Association and are published within the Schedule of Fees part of the Rules.

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# ARTICLE TWO

## Rights and Responsibilities of ODFIs, Their Originators and Third-Party Senders

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### **SECTION 2.1 General Rule – ODFI is Responsible for Entries and Rules Compliance**

An ODFI is responsible for all Entries originated through the ODFI, whether by an Originator or through a Third-Party Sender, including Entries Transmitted through Direct Access. An ODFI is responsible for its Originators' and Third-Party Senders' compliance with these Rules.

### **SECTION 2.2 Prerequisites to Origination**

An ODFI must perform, or ensure that an Originator or Third-Party Sender performs, each of the following before permitting the Originator or Third-Party Sender to originate any Entry:

#### ***SUBSECTION 2.2.1 ODFI Agreement with Originator, Third Party Sender or Sending Point***

##### ***SUBSECTION 2.2.1.1 ODFI Must Enter Origination Agreement with Originator***

An ODFI must enter into an Origination Agreement with each Originator for which the ODFI will originate Entries. The Origination Agreement must include, at a minimum, each of the following:

- (a) The Originator must authorize the ODFI to originate Entries on behalf of the Originator to Receivers' accounts;
- (b) The Originator must agree to be bound by these Rules;
- (c) The Originator must agree not to originate Entries that violate the laws of the United States;
- (d) Any restrictions on the types of Entries that may be originated;
- (e) The right of the ODFI to terminate or suspend the agreement for breach of these Rules in a manner that permits the ODFI to comply with these Rules; and,
- (f) The right of the ODFI to audit the Originator's compliance with the Origination Agreement and these Rules.

##### ***SUBSECTION 2.2.1.2 ODFI Must Enter Origination Agreement with Third-Party Sender***

An ODFI must enter into an Origination Agreement with each Third-Party Sender for which the ODFI will originate Entries. The Origination Agreement must include each of the following:

- (a) The Third-Party Sender, on behalf of the Originator, must authorize the ODFI to originate Entries on behalf of the Originator to Receivers' accounts;
- (b) The Third-Party Sender must agree to be bound by these Rules;
- (c) The Third-Party Sender must agree not to originate Entries that violate the laws of the United States;
- (d) Any restrictions on the types of Entries that may be originated;

- (e) The right of the ODFI to terminate or suspend the agreement, or any Originator of the Third-Party Sender, for breach of these Rules in a manner that permits the ODFI to comply with these Rules;
- (f) The right of the ODFI to audit the Third-Party Sender's and its Originators' compliance with the Origination Agreement and these Rules; and
- (g) The Third-Party Sender must agree that, before permitting an Originator to originate any Entry directly or indirectly through the ODFI, it will enter into an agreement with the Originator that satisfies each of the requirements of Subsection 2.2.1.1 (ODFI Must Enter Origination Agreement with Originator).

***SUBSECTION 2.2.1.3 ODFI Agreement with Sending Points***

An ODFI must enter into an agreement with each Sending Point that Transmits Entries on the ODFI's behalf to an ACH Operator. The ODFI is liable for each Entry Transmitted by the Sending Point that contains the ODFI's routing number.

***SUBSECTION 2.2.2 ODFI Risk Management***

An ODFI must perform due diligence with respect to the Originator or Third-Party Sender sufficient to form a reasonable belief that the Originator or Third-Party Sender has the capacity to perform its obligations in conformance with these Rules.

In addition, the ODFI must:

- (a) Assess the nature of the Originator's or Third-Party Sender's ACH activity and the risks it presents;
- (b) Establish, implement, and periodically review an exposure limit for the Originator or Third-Party Sender; and
- (c) Establish and implement procedures to:
  - (i) Monitor the Originator's or Third-Party Sender's origination and return activity across multiple Settlement Dates;

- (ii) Enforce restrictions on the types of Entries that may be originated; and
- (iii) Enforce the exposure limit.

***SUBSECTION 2.2.2.1 Termination, Suspension, and Audit of Originators and Third-Party Senders***

In addition to any other termination or suspension rights in an Origination Agreement, including for breach, if an Originator or Third-Party Sender breaches these Rules, or causes its ODFI to breach these Rules, the Origination Agreement may be terminated or suspended by the ODFI upon ten Banking Days' notice, or such shorter notice period as may be provided in the Origination Agreement. In addition to any other audit rights that may be set forth in an Origination Agreement, the ODFI may audit the compliance of the Originator or Third-Party Sender with these Rules and the Origination Agreement, subject to the procedural requirements, if any, set forth in the Origination Agreement.

***SUBSECTION 2.2.3 ODFI Board Approval of Direct Access Debit Participants***

An ODFI's board of directors, committee of the board of directors, or its designee must approve a Direct Access Debit Participant relationship prior to the ODFI originating Entries for the Direct Access Debit Participant.

**SECTION 2.3 Authorization and Notice of Entries**

***SUBSECTION 2.3.1 General Rule – Originator Must Obtain Authorization from Receiver***

An Originator must obtain authorization from the Receiver to originate one or more Entries to the Receiver's account.

***SUBSECTION 2.3.2 Authorizations and Notices with Respect to Consumer Accounts***

***SUBSECTION 2.3.2.1 Credit Entries***

Authorization of a credit Entry to a Consumer Account is not required to be in writing. If both the Originator and Receiver are natural Persons, no authorization by the Receiver is required, and no warranty with respect to any such authorization is made by the ODFI.

*SUBSECTION 2.3.2.2 Debit Entries*

- (a) Authorization of a debit Entry to a Consumer Account must be in writing and signed or similarly authenticated by the Receiver, except as expressly provided in the authorization sections of these Rules for specific types of Entries. Where these Rules provide that authorization for an Entry may be obtained by notice to the Receiver, authorization also may be obtained by means of a signed written authorization that meets the requirements of Subsection 2.3.2.3 (Form of Authorization) if all of the other requirements for the type of Entry are met.
- (b) An Originator must provide each Receiver with an Electronic or hard copy of the Receiver's authorization for all debit Entries to be initiated to a Consumer Account.

*SUBSECTION 2.3.2.3 Form of Authorization*

An authorization must:

- (a) be readily identifiable as an authorization;
- (b) have clear and readily understandable terms. A purported authorization that is not clear and readily understandable as to its terms (including the amount or timing of debits), or that is otherwise invalid under applicable Legal Requirements, does not satisfy the requirements of this Section 2.3; and
- (c) provide that the Receiver may revoke the authorization only by notifying the Originator in the time and manner stated in the authorization. For a Single Entry scheduled in advance, any such revocation right shall afford the Originator a reasonable opportunity to act on such revocation prior to the initiation of the Entry.

*SUBSECTION 2.3.2.4 Electronic Authorizations*

The writing and signature requirements of Subsection 2.3.2.2(a) (Authorization and Notices with Respect to Consumer Accounts – Debit Entries) may be satisfied by compliance with the Electronic Signatures in Global and National

Commerce Act (15 U.S.C. §7001 et seq.). An Electronic authorization must be visually displayed in a manner that enables the consumer to read the communication.

*SUBSECTION 2.3.2.5 Retention and Provision of the Record of Authorization*

- (a) An Originator must retain the original or a copy of each written authorization of a Receiver, or a readily and accurately reproducible Record evidencing any other form of authorization, for two years from the termination or revocation of the authorization.
- (b) Upon receipt of an RDFI's written request, the ODFI must provide the original, copy or other accurate Record of the Receiver's authorization to the RDFI within ten Banking Days without charge.
- (c) At the request of its ODFI, the Originator must provide the original, copy or other accurate Record of the Receiver's authorization to the ODFI for its use or for the use of an RDFI requesting the information. The Originator must provide the original, copy or other accurate Record in such time and manner as to enable the ODFI to deliver the authorization to a requesting RDFI within ten Banking Days of the RDFI's request.

*SUBSECTION 2.3.2.6 Notices of Variable Debits to Consumer Accounts*

- (a) *Notice of Change in Amount.* If the amount of a debit Entry to be initiated to a Consumer Account differs from the amount of the immediately preceding debit Entry relating to the same authorization, or differs from a preauthorized amount, an Originator must send the Receiver written notification of the amount of the Entry and the date on or after which the Entry will be debited at least ten calendar days prior to the date on which the Entry is scheduled to be initiated.
- (b) *No Notice Required for Change Within Agreed Range.* The Originator is not required to give the notice in Subsection



2.3.2.6(a) (Notice of Change in Amount) above if (i) the Originator provides, and the Receiver chooses, the option to receive such notice only if the amount of the Entry falls outside a specified range or if the Entry differs from the most recent Entry by more than an agreed upon amount, and (ii) the variation in the amount of the Entry is within the tolerance agreed to by the Receiver.

- (c) *Notice of Change in Scheduled Debiting Date.* An Originator that changes the scheduled date on or after which debit Entries are to be initiated to a Receiver's account must send to the Receiver written notification of the new date on or after which Entries are scheduled to be debited to the Receiver's account. The Originator must send such notification to the Receiver at least seven calendar days before the first such Entry is scheduled to be debited to the Receiver's account. For purposes of this subsection, variation in debiting dates due to Saturdays, Sundays, or holidays are not considered to be changes in the scheduled dates.

### **SUBSECTION 2.3.3 Agreement and Notice for Entries to Non-Consumer Accounts**

#### **SUBSECTION 2.3.3.1 Agreement to be Bound by the Rules**

The Originator must obtain the Receiver's agreement to be bound by these Rules.

#### **SUBSECTION 2.3.3.2 Notice by ODFI to Originator for Non-Consumer Credit Entries**

For a credit Entry subject to Article 4A, an ODFI must provide the Originator with notice, as part of the Origination Agreement or otherwise, of each of the following:

- (a) the Entry may be Transmitted through the ACH;
- (b) the rights and obligations of the Originator concerning the Entry are governed by and construed in accordance with the laws of the State of New York, unless the Originator

and the ODFI have agreed that the laws of another jurisdiction govern their rights and obligations;

- (c) credit given by the RDFI to the Receiver for the Entry is provisional until the RDFI has received final settlement through a Federal Reserve Bank or otherwise has received payment as provided for in Section 4A-403(a) of Article 4A; and
- (d) if the RDFI does not receive such payment for the Entry, the RDFI is entitled to a refund from the Receiver in the amount of the credit to the Receiver's account, and the Originator will not be considered to have paid the amount of the credit Entry to the Receiver.

### **► SUBSECTION 2.3.4 Restrictions on Data Passing**

*An ODFI must not disclose, and must ensure that the Originator and any Third Party Service Provider acting on behalf of the Originator or ODFI do not disclose, the Receiver's account number or routing number to any third party for such third party's use, directly or indirectly, in initiating a separate debit Entry.*

## **SECTION 2.4 General Warranties and Liabilities of Originating Depository Financial Institutions**

### **SUBSECTION 2.4.1 General ODFI Warranties**

An ODFI Transmitting an Entry warrants the following to each RDFI and ACH Operator in connection with such Entry at the time of the Entry's Transmission by or on behalf of the ODFI, unless another effective time frame is provided in this Subsection 2.4.1.

#### **SUBSECTION 2.4.1.1 The Entry is Authorized by the Originator and Receiver**

- (a) The Entry has been properly authorized by the Originator and the Receiver in accordance with these Rules.
- (b) The Originator's authorization has not been revoked, the Origination Agreements concerning the Entry have not been terminated, and neither the ODFI, any

Third-Party Sender, nor the Originator has actual knowledge of the revocation of the Receiver's authorization or of the termination of the agreement between the RDFI and the Receiver concerning the Entry.

- (c) At the time the Entry is processed by an RDFI, the authorization for that Entry has not been terminated, in whole or in part, by operation of law. This Subsection 2.4.1.1(c) shall not apply if the RDFI has actual knowledge of the circumstances giving rise to such termination at the time it processes the Entry and the ODFI does not have such actual knowledge.

***SUBSECTION 2.4.1.2 The Entry Complies with the Rules***

The Entry complies with these Rules, including the use of the proper Standard Entry Class Code.

***SUBSECTION 2.4.1.3 The Entry is Not Transmitted on Behalf of a Suspended Originator or Third Party Sender***

The Entry is not Transmitted on behalf of any Originator or Third-Party Sender that the ODFI has been directed to suspend or that appears on a list of suspended Originators and Third-Party Senders issued by the National Association from time to time, in each case in accordance with Appendix Ten, Subpart 10.4.7.6 (Suspension).

***SUBSECTION 2.4.1.4 The Entry Contains Required Information***

The Entry contains the Receiver's correct account number and all other information necessary to enable the RDFI to comply with the requirements of Subsection 3.1.5 (RDFI Obligation to Provide Information About Entries), except for information within the purview of the RDFI's relationship with the Receiver. All information Transmitted with the Entry is related to the payment represented by the Entry.

***SUBSECTION 2.4.1.5 Credit Entry is Timely***

The credit Entry is timely.

***SUBSECTION 2.4.1.6 Debit Entry Satisfies an Obligation or Corrects an Error***

The debit Entry is:

- (a) for an amount that will be due and owing to the Originator from the Receiver on the Settlement Date;
- (b) for a sum specified by the Receiver to be paid to the Originator; or
- (c) to correct a previous credit Entry that was an Erroneous Entry.

***SUBSECTION 2.4.1.7 Secure Transmission of Banking Information***

Banking information for the Entry is Transmitted in compliance with the requirements of Section 1.6 (Secure Transmission of ACH Information Via Unsecured Electronic Networks).

***SUBSECTION 2.4.1.8 The ODFI has Verified the Identity of Originator or Third-Party Sender That Uses an Unsecured Electronic Network***

The ODFI has utilized a commercially reasonable method to establish the identity of an Originator or Third-Party Sender that entered into an Origination Agreement via an Unsecured Electronic Network.

***SUBSECTION 2.4.2 ODFI Warranties Do Not Apply to Goods or Services***

The warranties contained within Subsection 2.4.1 (General ODFI Warranties) and the requirements of Subsection 2.3.1 (General Rule - Originator Must Obtain Authorization from Receiver) do not apply to the goods or services to which the Entry relates.

***SUBSECTION 2.4.3 ODFI Warranties for Entries Through its Sending Points***

An ODFI using a Sending Point to Transmit Entries to an ACH Operator shall be deemed to have made the warranties of Subsection 2.4.1 (General ODFI Warranties) for each Entry containing the ODFI's routing number that is Transmitted by the Sending Point, regardless of whether the Sending Point was authorized by the ODFI to Transmit the Entry.

**SUBSECTION 2.4.4 General Indemnity by ODFI****SUBSECTION 2.4.4.1 Indemnity for Breach of Warranty**

An ODFI shall indemnify every RDFI and ACH Operator from and against any and all claims, demands, losses, liabilities, and expenses, including attorneys' fees and costs, that result directly or indirectly from (a) the breach of any warranty made to such party by the ODFI under these Rules, or (b) the debiting or crediting of an Entry to a Receiver's account in accordance with the terms of the Entry, including any claims, demands, losses, liabilities, or expenses, and/or attorneys' fees and costs that result, either directly or indirectly, from the return of one or more items or Entries of the Receiver due to insufficient funds caused by a debit Entry.

**SUBSECTION 2.4.4.2 Indemnity for Failure to Comply with Regulation E**

An ODFI shall indemnify every RDFI and ACH Operator from and against any claims, demands, losses, liabilities, or expenses, including attorneys' fees and costs, based on the ground that the failure of the ODFI to comply with any provision of these Rules resulted, either directly or indirectly, in the violation by an RDFI of the Federal Electronic Fund Transfer Act or Federal Reserve Board Regulation E.

**SECTION 2.5 Provisions for Specific Types of Entries****SUBSECTION 2.5.1 Specific Provisions for ARC Entries (Accounts Receivable Entry)****SUBSECTION 2.5.1.1 General Rule for ARC Entries**

An ARC Entry is a Single Entry debit originated based on an Eligible Source Document provided to an Originator by a Receiver (1) via U.S. mail or delivery service, (2) at a dropbox location, or (3) in person for payment of a bill at a manned location. An ODFI must perform, or ensure that its Originator or Third-Party Sender performs, the requirements of Subsection 2.5.1.2 (Authorization of ARC Entries by Notification), Subsection 2.5.1.3 (Eligible Source Document Required) and Subsection 2.5.1.4 (Capture of Banking Information) below before permitting the Originator or Third-Party Sender to originate an ARC Entry.

**SUBSECTION 2.5.1.2 Authorization of ARC Entries by Notification**

An Originator may satisfy the requirement for authorization of an ARC Entry by providing the Receiver a notice meeting the requirements of this subsection and obtaining the Receiver's Eligible Source Document. The Originator must provide a conspicuous notice to the Receiver that includes the following, or substantially similar, language prior to the receipt of each Eligible Source Document that is used to initiate an ARC Entry:

“When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction.”

The Originator must provide a copy of the notice, or language that is substantially similar, to the Receiver at the time of the transaction when the Eligible Source Document for the Entry is provided by the Receiver in-person for payment of a bill at a manned location.

The requirements of Subsection 2.3.2.3(c) (Form of Authorization) concerning revocation of authorization do not apply to an ARC Entry.

For an ARC Entry to a non-Consumer Account, Subsection 2.3.3.1 (Agreement to be Bound by the Rules) does not apply.

**SUBSECTION 2.5.1.3 Eligible Source Document Required**

An Originator must use an Eligible Source Document provided by the Receiver as the source for the Receiver's routing number, account number, Check Serial Number, and dollar amount for an ARC Entry.

**SUBSECTION 2.5.1.4 Capture of Banking Information**

An Originator must initially use a reading device to capture the Receiver's routing number, account number, and Check Serial Number from the MICR line of the Receiver's Eligible Source Document. The Originator may key-enter such information only to correct errors resulting from MICR misreads, misencoding, or processing rejects.

***SUBSECTION 2.5.1.5 Additional ODFI Warranties for ARC Entries***

In addition to the other warranties contained within these Rules, an ODFI originating an ARC Entry warrants to each RDFI and ACH Operator, that:

- (a) *Entry Information is Accurate.* The amount of the ARC Entry, the routing number, the account number, and the Check Serial Number accurately represent the information on the Eligible Source Document used to initiate the ARC Entry.
- (b) *Eligible Source Document Will Not Be Presented for Payment.* The Eligible Source Document used to initiate the ARC Entry will not be presented or returned such that any Person will be required to make payment based on the Eligible Source Document, unless the ARC Entry is returned by the RDFI.
- (c) *Retention of Copy of Eligible Source Document and Related Payment Data by Originator.* The Originator will retain a reproducible and legible copy of the front of the Receiver's Eligible Source Document used to initiate each ARC Entry for two years from the Settlement Date of the ARC Entry, and will provide it to the ODFI upon request for use in complying with Subsection 2.5.1.5(d) (Provision of Copy of Eligible Source Document to RDFI) below. The Originator will establish and implement commercially reasonable methods to securely store:
  - (i) the Eligible Source Document used to initiate the ARC Entry until it is securely destroyed; and
  - (ii) all banking information relating to the ARC Entry.
- (d) *Provision of Copy of Eligible Source Document to RDFI.* The ODFI will provide a copy of the front of the Receiver's Eligible Source Document used to initiate the ARC

Entry, clearly marked on its face as a copy, to the RDFI within ten Banking Days upon receiving written request from the RDFI, provided that such request is received within two years of the Settlement Date of the ARC Entry.

***SUBSECTION 2.5.2 Specific Provisions for BOC Entries (Back Office Conversion Entry)******SUBSECTION 2.5.2.1 General Rule for BOC Entries***

A BOC Entry is a Single Entry debit originated based on an Eligible Source Document provided to an Originator by a Receiver at the point-of-purchase or manned bill payment location for subsequent conversion during back-office processing. A BOC Entry may be used only for an in-person transaction for which there is no standing authorization with the Originator for the origination of Entries to the Receiver's account. An ODFI must perform, or ensure that its Originator or Third-Party Sender performs, the requirements of Subsection 2.5.2.2 (Authorization of BOC Entries by Notification), Subsection 2.5.2.3 (Eligible Source Document Required), and Subsection 2.5.2.4 (Capture of Banking Information) below before permitting the Originator or Third-Party Sender to initiate a BOC Entry.

***SUBSECTION 2.5.2.2 Authorization of BOC Entries by Notification***

An Originator may satisfy the requirement for authorization of a BOC Entry by providing the Receiver a notice meeting the requirements of this subsection and obtaining the Receiver's Eligible Source Document. The Originator must provide a conspicuous notice to the Receiver that includes the following, or substantially similar, language prior to the receipt of each Eligible Source Document that is used to initiate each BOC Entry:

“When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction. For inquiries, please call <retailer phone number>.”

The Originator must post the notice in a prominent and conspicuous location and must provide a copy



of such notice, or language that is substantially similar, to the Receiver at the time of the transaction.

The requirements of Subsection 2.3.2.3(c) (Form of Authorization) concerning revocation of authorization do not apply to a BOC Entry.

For a BOC Entry to a non-Consumer Account, Subsection 2.3.3.1 (Agreement to be Bound by the Rules) does not apply.

**SUBSECTION 2.5.2.3 Eligible Source Document Required**

An Originator must use an Eligible Source Document provided by the Receiver at the point of purchase or manned bill payment location as the source document for the Receiver's routing number, account number, Check Serial Number, and dollar amount for a BOC Entry.-

**SUBSECTION 2.5.2.4 Capture of Banking Information**

An Originator must initially use a reading device to capture the Receiver's routing number, account number, and Check Serial Number from the MICR line of the Receiver's Eligible Source Document. The Originator may key-enter such information only to correct errors resulting from MICR misreads, misencoding, or processing rejects.

**SUBSECTION 2.5.2.5 Additional ODFI Warranties for BOC Entries**

In addition to the other warranties contained within these Rules, an ODFI originating a BOC Entry warrants to each RDFI and ACH Operator that:

- (a) *Verification of Identity of Originator or Third-Party Sender.* The ODFI has established and implemented commercially reasonable procedures to verify the identity of the Originator or Third-Party Sender of the BOC Entry.
- (b) *Documentation of Originators.* The ODFI has established and implemented procedures to maintain the following information with respect to the Originator of the BOC Entry:

- (i) company name;
- (ii) address;
- (iii) telephone number;
- (iv) contact person;
- (v) taxpayer identification number; and
- (vi) a description of the nature of the business of each Originator.

- (c) *Provision of Originator Information to RDFI.* The ODFI has established and implemented practices and procedures to provide the RDFI with information identifying the Originator of BOC Entries within two Banking Days of receipt of the RDFI's written request for such information, provided the RDFI's written request is received within two years of the Settlement Date of the original BOC Entry.
- (d) *Verification of Receiver's Identity.* The Originator has established and implemented commercially reasonable procedures to verify the identity of the Receiver.
- (e) *Customer Service Telephone Number.* The Originator has established and maintains a working telephone number that is answered during normal business hours for Receiver inquiries regarding the BOC Entry and has displayed this telephone number on the notice required by Subsection 2.5.2.2 (Authorization of BOC Entries by Notification).
- (f) *Entry Information is Accurate.* The amount of the BOC Entry, the routing number, the account number, and the Check Serial Number accurately represent the information on the Eligible Source Document used to initiate the BOC Entry.
- (g) *Eligible Source Document Will Not Be Presented for Payment.* The Eligible Source Document used to initiate the BOC Entry will not be presented or returned such that any person will be required to make payment based on the Eligible Source Document, unless the BOC Entry is returned by the RDFI.

- (h) *Retention of Eligible Source Document and Related Payment Data by Originator.* Each Originator will retain a reproducible and legible copy of the front of the Receiver's Eligible Source Document used to initiate each BOC Entry for two years from the Settlement Date of the BOC Entry, and will provide it to the ODFI upon request for use in complying with Subsection 2.5.2.5(i) (Provision of Copy of Eligible Source Document to RDFI) below. The Originator will establish and implement commercially reasonable methods to securely store:
  - (i) the Eligible Source Document used to initiate the BOC Entry until it is securely destroyed; and
  - (ii) all banking information relating to the BOC Entry.
- (i) *Provision of Copy of Eligible Source Document to RDFI.* The ODFI will provide a copy of the front of the Receiver's Eligible Source Document used to initiate the BOC Entry, clearly marked on its face as a copy, to the RDFI within ten Banking Days upon receiving written request from the RDFI, provided that such request is received within two years of the Settlement Date of the BOC Entry.

**SUBSECTION 2.5.3 General Rule for CCD Entries (Corporate Credit or Debit Entry)**

A CCD Entry is originated by an Organization to or from the account of that Organization or another Organization. A CCD Entry may be a credit Entry or a debit Entry, and may provide payment related information in one Addenda Record. A CCD Entry may also be a Non-Monetary Entry that carries payment related information in one Addenda Record.

**SUBSECTION 2.5.4 Specific Provisions for CIE Entries (Customer Initiated Entry)**

**SUBSECTION 2.5.4.1 General Rule for CIE Entries**

A CIE Entry is a credit Entry initiated by or on behalf of the holder of a Consumer Account to the account of a Receiver.

**SUBSECTION 2.5.4.2 ODFI to Satisfy Periodic Statement Requirement**

An ODFI must provide or make available the following information with respect to the Consumer Account of the Originator of a CIE Entry:

- (a) posting date to the Originator's account;
- (b) dollar amount of the Entry;
- (c) payee name;
- (d) Entry description;
- (e) account type;
- (f) account number;
- (g) amount of any charges assessed against the account for services related to the Entry;
- (h) balances in the Originator's account at the beginning and at the close of the statement period; and
- (i) address and telephone number to be used for inquiries or notices of errors preceded by "Direct Inquiries To" or similar language.

References to data elements contained in an Entry are further defined in Appendix Three (ACH Record Format Specifications). The requirements of this subsection apply regardless of whether Regulation E imposes similar requirements on the ODFI.

**SUBSECTION 2.5.4.3 Rules That Do Not Apply to CIE Entries**

The following subsections do not apply to CIE Entries:

- (a) Subsection 2.2.1.1 (ODFI Must Enter Origination Agreement with Originator); and
- (b) Subsection 2.2.2 (ODFI Risk Management).

**SUBSECTION 2.5.5 General Rule for CTX Entries (Corporate Trade Exchange Entry)**

A CTX Entry is originated by an Organization to or from the account of that Organization or another

Organization. A CTX Entry may be a credit Entry or a debit Entry that provides payment related information in one or more Addenda Records. A CTX Entry may also be a Non-Monetary Entry that carries information related to the payment in one or more Addenda Records.

***SUBSECTION 2.5.6 General Rule for DNE Entries (Death Notification Entry)***

A DNE Entry is a Non-Monetary Entry that gives notice by an agency of the United States Government to an RDFI of the death of a Receiver. Only an agency of the United States Government may originate a DNE Entry.

***SUBSECTION 2.5.7 General Rule for ENR Entries (Automated Enrollment Entry)***

An ENR Entry is a Non-Monetary Entry that enrolls a Person with an agency of the United States Government that will enable Entries to such Person's account at a Participating DFI. An ENR Entry may be originated by a Participating DFI at the request of an account holder at the Participating DFI to an agency of the United States Government that has agreed to receive the ENR Entry.

***SUBSECTION 2.5.8 Specific Provisions for IAT Entries (International ACH Transaction)***

***SUBSECTION 2.5.8.1 General Rule***

An IAT Entry is an Inbound or Outbound debit or credit Entry that is part of a payment transaction involving a Financial Agency's office that is not located in the territorial jurisdiction of the United States.

***SUBSECTION 2.5.8.2 Authorization for Outbound IAT Entries***

An Outbound IAT Entry must be authorized as provided in Subsection 2.3.1 (General Rule - Originator Must Obtain Authorization from Receiver). The form and content of the foreign receiver's authorization, including whether such authorization may be oral, electronic or written, is governed by the laws and payment system rules of the receiving country. For an Outbound credit IAT Entry for which both the Originator and foreign receiver are natural Persons, no authorization is required by these Rules.

***SUBSECTION 2.5.8.3 Origination Agreements for IAT Entries***

An Origination Agreement between an ODFI and an Originator or Third-Party Sender for IAT Entries must specify, in addition to the requirements of Subsection 2.2.1 (ODFI Agreement with Originator, Third Party Sender or Sending Point):

- (a) the terms and conditions for the allocation of gains, losses, and the assumption of risk for foreign exchange conversion; and
- (b) the rights and responsibilities of the ODFI in the event of an Erroneous Entry.

***SUBSECTION 2.5.8.4 Additional ODFI Warranties for Outbound IAT Entries***

In addition to the other warranties contained within these Rules, an ODFI initiating an Outbound IAT Entry warrants to each RDFI, ACH Operator, and Gateway:

- (a) *Compliance with U.S. Legal Requirements.* The Originator and ODFI are in compliance with U.S. Legal Requirements with respect to the IAT Entry, including their obligations under programs administered by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and the Financial Crimes Enforcement Network (FinCEN).
- (b) *Compliance with Foreign Payment System Rules.* The origination of the IAT Entry complies with the laws and payment system rules of the receiving country.

***SUBSECTION 2.5.8.5 ODFI Indemnity of Gateway for Breach of Warranty***

An ODFI breaching any of the warranties contained within Subsection 2.5.8.4 (Additional ODFI Warranties for Outbound IAT Entries) shall indemnify each Gateway from and against any and all resulting claim, demand, loss, liability, or expense, including attorneys' fees and costs, resulting directly or indirectly from the breach of such warranties. The indemnification obligation of this Subsection 2.5.8.5 is in addition to the ODFI's indemnification obligations under Subsection 2.4.4 (General Indemnity by ODFI).

***SUBSECTION 2.5.8.6 Rules Exceptions for Outbound IAT Entries***

The following sections do not apply to Outbound IAT Entries:

- (a) Subsection 2.3.2 (Authorizations and Notices with Respect to Consumer Accounts);
- (b) Subsection 2.3.3.1 (Agreement to be Bound by the Rules);
- (c) Section 2.10 (Reclamation Entries and Written Demands for Payment);
- (d) Subsection 2.12.5.1 (Dishonor of Return by ODFI).

The following sections apply to Outbound IAT Entries to the extent supported by the laws and payment system rules of the foreign receiving country:

- (e) Section 2.6 (Prenotifications);
- (f) Section 2.8 (Reversing Files);
- (g) Section 2.9 (Reversing Entries);
- (h) Section 2.11 (Notifications of Change);
- (i) Subsection 2.12.4 (Reinitiation of Returned Entries).

The following sections apply to Outbound IAT Entries only to the extent that the Uniform Commercial Code Article 4A applies:

- (j) Subsection 2.3.3.2(c) and (d) (Notice by ODFI to Originator for Non-Consumer Credit Entries).

***SUBSECTION 2.5.8.7 Rules Exceptions for Inbound IAT Entries***

The following subsection applies to Inbound IAT Entries to the extent supported by the laws and payment system rules of the foreign originating country:

- (a) Subsection 2.11.1 (ODFI and Originator Action on Notification of Change (NOC)).

***SUBSECTION 2.5.9 Specific Provisions for MTE Entries (Machine Transfer Entry)******SUBSECTION 2.5.9.1 General Rule***

An MTE Entry is a credit or debit Entry initiated at an “electronic terminal,” as that term is defined in Regulation E, to a Consumer Account maintained with an RDFI (i.e., an ATM cash deposit or withdrawal).

***SUBSECTION 2.5.9.2 PIN Security***

An ODFI and any Originator and Third-Party Sender must comply with the American National Standards Institute’s (ANSI) Accredited Standards Committee (ASC) X9.8 concerning PIN Management and Security with respect to the handling of any personal identification number (PIN) in connection with the authorization of an MTE Entry.

***SUBSECTION 2.5.9.3 ODFI Warrants that the Originator has Satisfied Applicable PIN Requirements***

If a personal identification number (PIN) is required in connection with the authorization for an MTE Entry, an ODFI warrants that the Originator has complied with the American National Standards Institute’s (ANSI) Accredited Standards Committee (ASC) X9.8 concerning PIN Management and Security. This provision does not apply if a card issued by the ODFI or Originator of the Entry is used in connection with the authorization for these Entries.

***SUBSECTION 2.5.9.4 Rules Exceptions for MTE Entries***

The following sections do not apply to MTE Entries if the ODFI and the RDFI are parties to an agreement (other than these Rules) for the provision of services related to MTE Entries:

- (a) Subsection 2.3.2.5 (Retention and Provision of the Record of Authorization);
- (b) Subsection 2.5.9.2 (PIN Security);
- (c) Subsection 2.5.9.3 (ODFI Warrants that the Originator has Satisfied Applicable PIN Requirements).

The following sections do not apply to MTE Entries if a card issued by the ODFI or Originator of the



Entry is used in connection with the authorization of the MTE Entries:

- (d) Subsection 2.5.9.2 (PIN Security);
- (e) Subsection 2.5.9.3 (ODFI Warrants that the Originator has Satisfied Applicable PIN Requirements).

### ***SUBSECTION 2.5.10 Specific Provisions for POP Entries (Point-of-Purchase Entry)***

#### ***SUBSECTION 2.5.10.1 General Rule for POP Entries***

A POP Entry is a Single Entry debit originated based on an Eligible Source Document provided to an Originator by a Receiver at the point-of-purchase or manned bill payment location for conversion at the point-of-purchase or manned bill payment location. A POP Entry may be used only for an in-person transaction for which there is no standing authorization with the Originator for the origination of Entries to the Receiver's account. An ODFI must perform, or ensure that its Originator or Third-Party Sender performs, the requirements of Subsection 2.5.10.2 (Authorization of POP Entries by Notification and Written Agreement), Subsection 2.5.10.3 (Eligible Source Document Required), Subsection 2.5.10.4 (Capture of Banking Information; Voiding of Source Document), and Subsection 2.5.10.5 (Originator Must Provide Receipts for POP Entries) below before permitting the Originator or Third-Party Sender to initiate a POP Entry.

#### ***SUBSECTION 2.5.10.2 Authorization of POP Entries by Notification and Written Agreement***

An Originator may satisfy the requirement for authorization of a POP Entry by providing the Receiver a notice meeting the requirements of this subsection and obtaining a written authorization from the Receiver. The Originator must provide a conspicuous notice to the Receiver that includes the following, or substantially similar, language prior to the receipt of each Eligible Source Document that is used to initiate each POP Entry:

“When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic fund transfer from

your account or to process the payment as a check transaction.”

The Originator must post the notice in a prominent and conspicuous location and a copy of such notice, or language that is substantially similar, must be provided to the Receiver at the time of the transaction.

The requirements of Subsection 2.3.2.3(c) (Form of Authorization) concerning revocation of authorization do not apply to a POP Entry.

For a POP Entry to a non-Consumer Account, Subsection 2.3.3.1 (Agreement to be Bound by the Rules) does not apply.

#### ***SUBSECTION 2.5.10.3 Eligible Source Document Required***

An Originator must use an Eligible Source Document provided by the Receiver at the point-of-purchase or a manned bill payment location as the source document for the Receiver's routing number, account number, and Check Serial Number for a POP Entry. For purposes of POP Entries, the Eligible Source Document need not be completed or signed by the Receiver.

#### ***SUBSECTION 2.5.10.4 Capture of Banking Information; Voiding of Source Document***

- (a) An Originator must initially use a reading device to capture the Receiver's routing number, account number, and Check Serial Number from the MICR line of the Receiver's Eligible Source Document. Such information may not be key-entered by the Originator. An Originator may key-enter such information only to correct errors resulting from MICR misreads or processing rejects.
- (b) An Originator must void the Eligible Source Document at the time of the transaction and return it to the Receiver.

#### ***SUBSECTION 2.5.10.5 Originator Must Provide Receipts for POP Entries***

- (a) An Originator must provide the Receiver a receipt containing the following information with respect to each POP Entry to the Receiver's account:

- (i) Originator name (merchant);
  - (ii) company (merchant)/third-party service provider telephone number;
  - (iii) date of transaction;
  - (iv) transaction amount;
  - (v) Check Serial Number of the Eligible Source Document;
  - (vi) merchant number (or other unique number that identifies the location of the transaction);
  - (vii) terminal city, as that term is defined in Regulation E; and
  - (viii) terminal state, as that term is defined in Regulation E.
- (b) The National Association strongly recommends, but these Rules do not require, that the Originator also provide the following information on the receipt provided to the Receiver:
- (i) merchant address;
  - (ii) merchant identification number;
  - (iii) Receiver's financial institution routing number;
  - (iv) Receiver's truncated account number;
  - (v) Receiver's truncated identification number; and
  - (vi) transaction reference number.
- (c) The Originator must not place the Receiver's complete account number or complete identification number on the receipt.
- ENTRY WARRANTS TO EACH RDFI AND ACH OPERATOR THAT:**
- (a) *Return of Voided Source Document to Receiver.* The Originator voided the Eligible Source Document used to initiate such POP Entry and returned it to the Receiver at the time of the transaction.
  - (b) *Source Document Not Used for Prior POP Entry.* The Eligible Source Document used to initiate the POP Entry has not been provided by the Receiver for use in initiating any prior POP Entry.

**SUBSECTION 2.5.11 Specific Provisions for POS Entries (Point-of-Sale Entry)**

**SUBSECTION 2.5.11.1 General Rule for POS Entries**

A POS Entry is a debit Entry initiated at an “electronic terminal,” as that term is defined in Regulation E, to a Consumer Account of the Receiver to pay an obligation incurred in a point-of-sale transaction, or to effect a point-of-sale terminal cash withdrawal.

**SUBSECTION 2.5.11.2 PIN Security**

An ODFI and any Originator and Third-Party Sender must comply with the American National Standards Institute's (ANSI) Accredited Standards Committee (ASC) X9.8 concerning PIN Management and Security with respect to the handling of any personal identification number (PIN) in connection with the authorization of a POS Entry.

**SUBSECTION 2.5.11.3 ODFI Warrants that the Originator has Satisfied Applicable PIN Requirements**

If a personal identification number (PIN) is required in connection with the authorization for an POS Entry, an ODFI warrants that the Originator has complied with the American National Standards Institute's (ANSI) Accredited Standards Committee (ASC) X9.8 concerning PIN Management and Security. This provision does not apply if a card issued by the ODFI or Originator of the Entry is used in connection with the authorization for these Entries.

**SUBSECTION 2.5.10.6 Additional ODFI Warranties for POP Entries**

In addition to the other warranties contained within these Rules, an ODFI originating a POP

**SUBSECTION 2.5.12 General Rule for PPD Entries (Prearranged Payment and Deposit Entry)**

A PPD Entry is a credit Entry or debit Entry originated by an Organization to a Consumer Account of a Receiver based on a standing or a Single Entry authorization from the Receiver. An authorization for a debit PPD Entry must be in writing, and signed or similarly authenticated by the Receiver, as provided in Section 2.3 (Authorization and Notice of Entries).

**SUBSECTION 2.5.13 Specific Provisions for RCK Entries (Re-presented Check Entry)**

**SUBSECTION 2.5.13.1 General Rule for RCK Entries**

An RCK Entry is a debit Entry used to collect the amount of a Check returned for insufficient or uncollected funds. If an eligible item as described in Subsection 2.5.13.3 (RCK Eligible Items) is returned by a Participating DFI, an ODFI may initiate an RCK Entry. As provided in Section 8.68 (“RCK Entry”), an RCK Entry is deemed to be a presentment notice for purposes of Revised Article 4 of the Uniform Commercial Code (1990 Official Text), receipt of the RCK Entry constitutes presentment of the item pursuant to Article 4-110, and return of the RCK Entry constitutes notice of dishonor or non-payment pursuant to Article 4-301. The provisions of these Rules that are applicable to RCK Entries are intended to constitute a modification of Regulation CC by agreement as provided at 12 C.F.R. Part 229.37 of Federal Reserve Regulation CC.

An ODFI must perform, or ensure that its Originator or Third-Party Sender performs, the requirements of Subsection 2.5.13.2 (Authorization of RCK Entries by Notification), Subsection 2.5.13.3 (RCK Eligible Items), Subsection 2.5.13.4 (RCK Ineligible Items), Subsection 2.5.13.5 (Retention and Provision of a Copy of Item), Subsection 2.5.13.6 (Agreement of Originator That Restrictive Endorsement is Void or Ineffective), and Subsection 2.5.13.7 (Reinitiation of Returned RCK Entries) below before permitting the Originator or Third-Party Sender to initiate an RCK Entry.

**SUBSECTION 2.5.13.2 Authorization of RCK Entries by Notification**

An Originator may satisfy the requirement for authorization of an RCK Entry by providing the

Receiver a notice meeting the requirements of this subsection and obtaining the item to which the RCK Entry relates. The Originator must provide a conspicuous notice to the Receiver that has clear and readily understandable terms for initiating RCK Entries in advance of receiving the item to which the RCK Entry relates.

The requirements of Subsection 2.3.2.3(c) (Form of Authorization) concerning revocation of authorization do not apply to an RCK Entry.

**SUBSECTION 2.5.13.3 RCK Eligible Items**

An Originator may initiate an RCK Entry only in relation to an item that:

- (a) is an item within the meaning of Revised Article 4 of the Uniform Commercial Code (1990 Official Text);
- (b) is a negotiable demand draft drawn on or payable through or at a Participating DFI, other than a Federal Reserve Bank or Federal Home Loan Bank;
- (c) contains a pre-printed serial number;
- (d) is in an amount less than \$2,500;
- (e) indicates on the face of the document that the item was returned due to “Not Sufficient Funds,” “NSF,” “Uncollected Funds,” or comparable language;
- (f) is dated 180 days or less from the date the RCK Entry is Transmitted to the RDFI (i.e., the item to which the RCK Entry relates is not stale-dated);
- (g) is drawn on a Consumer Account; and
- (h) has been previously presented:
  - (i) no more than two times through the check collection system (as a Check, substitute check, or image), if the Entry is an initial RCK Entry; or
  - (ii) no more than one time through the check collection system (as a Check, substitute check, or image), and no more than one time as an RCK

Entry, if the Entry is a reinitiated RCK Entry in accordance with Subsection 2.5.13.7 (Reinitiation of Returned RCK Entries).

*SUBSECTION 2.5.13.4 RCK Ineligible Items*

Examples of items an Originator may not use to initiate an RCK Entry include the following:

- (a) noncash items (as defined in Section 229.2(u) of Regulation CC);
- (b) drafts drawn on the Treasury of the United States, a Federal Reserve Bank, or a Federal Home Loan Bank;
- (c) drafts drawn on a state or local government that are not payable through or at a Participating DFI;
- (d) United States Postal Service money orders;
- (e) items payable in a medium other than United States currency;
- (f) items payable to a person other than the Originator; and
- (g) drafts that do not contain the original signature of the Receiver, including remotely created checks, as defined by Regulation CC.

*SUBSECTION 2.5.13.5 Retention and Provision of a Copy of Item*

- (a) *Retention of Copy of Item.* An Originator must retain a copy of the front and back of the item to which the RCK Entry relates for seven years from the Settlement Date of the RCK Entry.
- (b) *Provision of Copy of Item.* At the request of the ODFI, the Originator must provide the copy of the front and back of the item to the ODFI for its use or for the use of an RDFI requesting the information in accordance with Subsection 3.1.5 (RDFI Obligation to Provide Information About Entries). If the item has been finally paid prior to the Originator's provision of a copy of the item to the ODFI, the Originator must mark the

copy of the item as paid on its face. The ODFI must provide the copy to the RDFI within ten Banking Days of receipt of the RDFI's request for the copy.

*SUBSECTION 2.5.13.6 Agreement of Originator That Restrictive Endorsement is Void or Ineffective*

An ODFI must obtain the agreement of the Originator that any restrictive endorsement made by the Originator or its agent on the item to which the RCK Entry relates is void or ineffective upon initiation of the RCK Entry.

*SUBSECTION 2.5.13.7 Reinitiation of Returned RCK Entries*

An Originator or ODFI may reinitiate any RCK Entry that was previously returned if:

- (a) the RCK Entry has been returned for insufficient or uncollected funds; and
- (b) the item to which the RCK Entry relates has been presented no more than one time through the check collection system (as a Check, substitute check, or image) and no more than one time as an RCK Entry.

*SUBSECTION 2.5.13.8 Additional ODFI Warranties for RCK Entries*

In addition to the other warranties contained within these Rules, an ODFI originating an RCK Entry warrants to each RDFI and ACH Operator that:

- (a) *Good Title to the Returned Item.* The ODFI has good title or is entitled to enforce the item to which the RCK Entry relates or is authorized to obtain payment or acceptance on behalf of one who has good title or is entitled to enforce the item.
- (b) *Signatures Are Genuine.* All signatures on the item to which the RCK Entry relates are authentic and authorized.
- (c) *Item Not Altered.* The item to which the RCK Entry relates has not been altered.
- (d) *No Defenses.* The item to which the RCK Entry relates is not subject to a defense or claim in recoupment of any party that can be asserted against the ODFI.



- (e) *No Knowledge of Insolvency.* The ODFI has no knowledge of any insolvency proceeding commenced with respect to the maker or acceptor, or, in the case of an unaccepted draft, the drawer of the item to which the RCK Entry relates.
- (f) *Entry Accurately Reflects Item.* The item to which the RCK Entry relates is drawn on, payable through, or payable at the RDFI, and the amount of the item, the item number, and the account number contained on the item have been accurately reflected in the RCK Entry.
- (g) *Item Will Not Be Presented.* Neither the item to which an RCK Entry relates, nor any copy of such item, will be presented to the RDFI subsequent to the origination of the RCK Entry unless the related RCK Entry has been returned by the RDFI.
- (h) *Encoding Is Correct.* The information encoded in magnetic ink on the item to which the RCK Entry relates after issuance of the item is correct.
- (i) *Restrictive Endorsement is Void or Ineffective.* The Originator has agreed that any restrictive endorsement made by the Originator or its agent on the item to which the RCK Entry relates is void or ineffective upon initiation of the RCK Entry.

#### **SUBSECTION 2.5.14 Specific Provisions for SHR Entries (Shared Network Entry)**

##### **SUBSECTION 2.5.14.1 General Rule for SHR Entries**

An SHR Entry is a debit Entry initiated at an “electronic terminal,” as that term is defined in Regulation E, to a Consumer Account of the Receiver to pay an obligation incurred in a point-of-sale transaction, or to effect a point-of-sale terminal cash withdrawal. SHR Entries are initiated in a shared network where the ODFI and RDFI have an agreement in addition to these Rules to process such Entries.

##### **SUBSECTION 2.5.14.2 ODFI is Responsible for PIN Security**

An ODFI and any Originator and Third-Party Sender must comply with the American National Standards Institute’s (ANSI) Accredited Standards Committee (ASC) X9.8 concerning PIN Management and Security with respect to the handling of any personal identification number (PIN) in connection with the authorization of an SHR Entry.

##### **SUBSECTION 2.5.14.3 ODFI Warrants that the Originator has Satisfied Applicable PIN Requirements**

If a personal identification number (PIN) is required in connection with the authorization for an SHR Entry, an ODFI warrants that the Originator has complied with the American National Standards Institute’s (ANSI) Accredited Standards Committee (ASC) X9.8 concerning PIN Management and Security. This provision does not apply if a card issued by the ODFI or Originator of the Entry is used in connection with the authorization for these Entries.

##### **SUBSECTION 2.5.14.4 Rules Exceptions for SHR Entries**

The requirements of Subsection 2.3.2.5 (Retention and Provision of the Record of Authorization) do not apply to SHR Entries.

The following sections do not apply to SHR Entries if a card issued by the ODFI or Originator of the Entry is used in connection with the authorization of the SHR Entries:

- (a) Subsection 2.5.9.2 (PIN Security); and
- (b) Subsection 2.5.14.3 (ODFI Warrants that the Originator has Satisfied Applicable PIN Requirements).

#### **SUBSECTION 2.5.15 Specific Provisions for TEL Entries (Telephone-Initiated Entry)**

##### **SUBSECTION 2.5.15.1 General Rule for TEL Entries**

A TEL Entry is a debit Entry originated based on an oral authorization provided to the Originator by a Receiver via the telephone. A TEL Entry may only be used when there is an Existing Relationship between the Originator and the Receiver, or, when

there is not an Existing Relationship between the Originator and the Receiver, when the Receiver initiates the telephone call. An ODFI must perform, or ensure that its Originator or Third-Party Sender performs, the requirements of Subsection 2.5.15.2 (Authorization of TEL Entries) and Subsection 2.5.15.3 (Retention of the Record of Authorization for TEL Entries) below before permitting the Originator or Third-Party Sender to initiate a TEL Entry.

*SUBSECTION 2.5.15.2 Authorization of TEL Entries*

An Originator must satisfy the requirement for authorization of a TEL Entry by obtaining oral authorization from the Receiver to initiate a debit Entry to a Consumer Account of the Receiver. The authorization must be readily identifiable as an authorization and must have clear and readily understandable terms.

The following minimum information must be included as part of the authorization of a Single Entry TEL Entry:

- (a) the date on or after which the ACH debit to the Receiver's account will occur;
- (b) the amount of the transaction or a reference to the method of determining the amount of the transaction;
- (c) the Receiver's name or identity;
- (d) the account to be debited;
- (e) a telephone number for Receiver inquiries that is answered during normal business hours;
- (f) the date of the Receiver's oral authorization; and
- (g) a statement by the Originator that the authorization obtained from the Receiver is for a Single-Entry ACH debit, a one-time electronic funds transfer, or other similar reference.

For an authorization relating to a Single Entry TEL Entry, the Originator must either make an audio recording of the oral authorization, or provide the

Receiver with written notice confirming the oral authorization prior to the Settlement Date of the Entry.

The following minimum information must be included as part of the authorization of a recurring TEL Entry:

- (h) the amount of the recurring transactions, or a reference to the method of determining the amounts of recurring transactions;
- (i) the timing (including the start date), number, and/or frequency of the electronic fund transfers, or other similar reference, to the Consumer's account;
- (j) the Receiver's name or identity;
- (k) the account to be debited;
- (l) a telephone number for Receiver inquiries that is answered during normal business hours; and
- (m) the date of the Receiver's oral authorization.

For an authorization relating to recurring TEL Entries, the Originator must comply with the requirements of Regulation E for the authorization of preauthorized transfers, including the requirement to send a copy of the authorization to the Receiver.

*SUBSECTION 2.5.15.3 Retention of the Record of Authorization for TEL Entries*

An Originator must retain the original or a copy of the written notice or the original or a duplicate audio recording of the oral authorization for two years from the date of the authorization of a Single Entry TEL Entry. For recurring TEL Entries, an Originator must retain for two years from the termination or revocation of the authorization (i) the original or a duplicate audio recording of the oral authorization, and (ii) evidence that a copy of the authorization was provided to the Receiver in compliance with Regulation E.

*SUBSECTION 2.5.15.4 Additional ODFI Warranties for TEL Entries*

In addition to the other warranties contained within these Rules, an ODFI originating a TEL

Entry warrants to each RDFI and ACH Operator that:

- (a) *Verification of Receiver's Identity.* The Originator has established and implemented commercially reasonable procedures to verify the identity of the Receiver.
- (b) *Verification of Routing Numbers.* The Originator has established and implemented commercially reasonable procedures to verify that routing number used in the TEL Entry is valid.

***SUBSECTION 2.5.15.5 Rules Exceptions for TEL Entries***

The requirement that an Electronic authorization must be visually displayed in a manner that enables the consumer to read the communication, as required by Subsection 2.3.2.4 (Electronic Authorizations), does not apply to TEL Entries.

***SUBSECTION 2.5.16 Specific Provisions for TRC and TRX Entries (Check Truncation Entry)***

***SUBSECTION 2.5.16.1 General Rule for TRC and TRX Entries***

A TRC or TRX Entry is a debit Entry initiated under a Check Truncation Program. This Subsection 2.5.16 applies to all TRC and TRX Entries initiated under the rules of a Check Truncation Program, unless otherwise provided for in the rules of the Check Truncation Program. A TRC Entry and TRX Entry also shall constitute a “demand for payment” under Articles 3 and 4 of the UCC.

***SUBSECTION 2.5.16.2 TRC Entries and TRX Entries are Permitted Only to Eligible Participants***

An ODFI may Transmit a TRC Entry or TRX Entry to an RDFI only if the ODFI and RDFI each are participants in the same Check Truncation Program.

***SUBSECTION 2.5.16.3 Indemnification by ODFI for Misrouted TRC Entries and TRX Entries***

An ODFI that Transmits a TRC Entry or TRX Entry to an RDFI not participating in the same Check Truncation Program as the ODFI shall indemnify the RDFI from and against any and all claims, demands, losses, liabilities, and expenses, including attorneys’ fees and costs, resulting

directly or indirectly from the debiting of the Entry to the deposit account identified in the Entry.

***SUBSECTION 2.5.16.4 Rules Exceptions for TRC Entries and TRX Entries***

The following sections do not apply to TRC and TRX Entries:

- (a) Section 1.7 (Choice of Law);
- (b) Section 2.2 (Prerequisites to Origination);
- (c) Section 2.3 (Authorization and Notice of Entries);
- (d) Section 2.4 (General Warranties and Liabilities of ODFIs);
- (e) Section 2.6 (Prenotifications);
- (f) Section 2.9 (Reversing Entries);
- (g) Section 2.10 (Reclamation Entries and Written Demands for Payment);
- (h) Subsection 2.12.4 (Reinitiation of Returned Entries);
- (i) Section 8.12 (“Banking Day”);
- (j) Section 8.38 (“File”);
- (k) Section 8.63 (“Person”);
- (l) Appendix Four (Return Entries);
- (m) Appendix Five (Notification of Change);
- (n) Appendix Seven (Compensation Rules);
- (o) Appendix Eight (Rule Compliance Audit Requirements);
- (p) Appendix Nine (Arbitration Procedures).

***SUBSECTION 2.5.16.5 Conflicts Between Rules and Check Truncation Program Rules***

If there is a conflict between this Subsection 2.5.16 and the rules of a Check Truncation Program, the Check Truncation Program’s rules govern.

***SUBSECTION 2.5.17 Specific Provisions for WEB Entries (Internet-Initiated/Mobile Entry)***

***SUBSECTION 2.5.17.1 General Rule for WEB Entries***

A WEB Entry is a debit Entry to a Consumer Account originated based on (1) an authorization that is communicated, other than by an oral communication, from the Receiver to the Originator

via the Internet or a Wireless Network; or (2) any form of authorization if the Receiver's instruction for the initiation of the individual debit Entry is designed by the Originator to be communicated, other than by an oral communication, to the Originator via a Wireless Network. An ODFI must perform, or ensure that its Originator or Third-Party Sender performs, the requirements of Subsection 2.5.17.2 (Authorization of WEB Entries) and Subsection 2.5.17.3 (WEB Annual Audit) below before permitting an Originator or Third-Party Sender to initiate a WEB Entry.

**SUBSECTION 2.5.17.2 Authorization of WEB Entries**

An Originator must satisfy the requirement for authorization of a WEB Entry to a Consumer Account of the Receiver by (1) obtaining written authorization from the Receiver via the Internet or a Wireless Network; or (2) obtaining the Receiver's authorization in any manner permissible under Subsection 2.3.2 (Authorizations and Notices with Respect to Consumer Accounts), and the Receiver's instruction for the initiation of the individual debit Entry is communicated, other than by an oral communication, via a Wireless Network.

**SUBSECTION 2.5.17.3 WEB Annual Audit**

An Originator of the WEB Entry must conduct, or have conducted on its behalf, annual audits to ensure that the financial information it obtains from Receivers is protected by security practices and procedures that include, at a minimum, adequate levels of:

- (a) physical security to protect against theft, tampering, or damage;
- (b) personnel and access controls to protect against unauthorized access and use; and
- (c) network security to ensure secure capture, storage, and distribution.

**SUBSECTION 2.5.17.4 Additional ODFI Warranties for WEB Entries**

In addition to the other warranties contained within these Rules, an ODFI originating a WEB Entry warrants to each RDFI and ACH Operator that:

- (a) *Fraud Detection Systems.* The Originator has established and implemented a commercially reasonable fraudulent transaction detection system to screen the WEB Entry.
- (b) *Verification of Receiver's Identity.* The Originator has established and implemented commercially reasonable methods of authentication to verify the identity of the Receiver of the WEB Entry.
- (c) *Verification of Routing Numbers.* The Originator has established and implemented commercially reasonable procedures to verify that the routing number used in the WEB Entry is valid.

**SUBSECTION 2.5.18 Specific Provisions for XCK Entries (Destroyed Check Entry)**

**SUBSECTION 2.5.18.1 General Rule for XCK Entries**

An ODFI may originate an XCK entry for an eligible item as described in Subsection 2.5.18.2 (XCK Eligible Items). Notwithstanding Section 8.33 ("Entry"), an XCK Entry shall not be deemed to be an item under Article 4 of the Uniform Commercial Code, and neither Transmittal to nor receipt by an RDFI of an XCK Entry shall constitute presentment of the original item.

**SUBSECTION 2.5.18.2 XCK Eligible Items**

An ODFI may initiate an XCK Entry only in relation to an item that:

- (a) is an item within the meaning of Article 4 of the Uniform Commercial Code;
- (b) is a negotiable demand draft drawn on or payable through or at an office of a Participating DFI, other than a Federal Reserve Bank or Federal Home Loan Bank;
- (c) is in an amount less than \$2,500; and
- (d) either (1) is contained in a cash letter that is lost, destroyed, or otherwise unavailable while in transit for presentment to a paying bank, and cannot be obtained; or (2) (i)



is missing part of the MICR line but can be sufficiently repaired to create an ACH Entry; (ii) is an image of an item that cannot be processed through the applicable image exchange, but has sufficient information to create an Entry; or (iii) is, in whole or in part, unreadable, obscured, or mutilated in a manner that prevents automated check processing or creation of an image that can be used to produce a “substitute check” that is the legal equivalent of the original check under the Check Clearing for the 21st Century Act, Pub. L. 108-100, but has sufficient information to create an Entry.

#### *SUBSECTION 2.5.18.3 XCK Ineligible Items*

Examples of items an ODFI may not use originate an XCK Entry include:

- (a) noncash items (as defined in Section 229.2(u) of Regulation CC);
- (b) drafts drawn on the Treasury of the United States, a Federal Reserve Bank, or a Federal Home Loan Bank;
- (c) drafts drawn on a state or local government that are not payable through or at a Participating DFI;
- (d) United States Postal Service money orders;
- (e) items payable in a medium other than United States currency; and
- (f) returned items.

#### *SUBSECTION 2.5.18.4 Provision of Copy of Item to RDFI or Other DFI*

An ODFI must provide a copy of the item to which the XCK Entry relates to the RDFI, and to the first DFI to which such item was transferred if different from the ODFI, within thirty days of receiving a written request from the RDFI, or such other DFI, respectively, provided that such request is received within six years of the date on which the ODFI initiated the XCK Entry.

#### *SUBSECTION 2.5.18.5 Additional ODFI Warranties for XCK Entries*

In addition to the other warranties contained within these Rules, an ODFI originating an XCK Entry warrants to each RDFI and ACH Operator that:

- (a) *Good Title to the Check.* The ODFI has good title to or is entitled to enforce the item to which the XCK Entry relates or is authorized to obtain payment or acceptance on behalf of one who has good title or is entitled to enforce the item.
- (b) *Signatures are Genuine.* All signatures on the item to which the XCK Entry relates are authentic and authorized.
- (c) *No Alterations.* The item to which the XCK Entry relates has not been altered.
- (d) *No Defenses.* The item to which the XCK Entry relates is not subject to a defense or claim in recoupment of any party that can be asserted against the ODFI.
- (e) *No Knowledge of Insolvency.* The ODFI has no knowledge of any insolvency proceeding commenced with respect to the maker or acceptor or, in the case of an unaccepted draft, the drawer of the item to which the XCK Entry relates.
- (f) *Item Drawn on RDFI.* The item to which the XCK Entry relates is drawn on, payable through, or payable at the RDFI.
- (g) *XCK Entry Accurately Reflects Item.* The amount of the item to which the XCK Entry relates, the item number, and account number contained on such item have been accurately reflected in the XCK Entry.
- (h) *Item Has Not Been Presented.* Neither the item to which the XCK Entry relates, nor any copy (including any image) of such item, has been presented and will not be presented to the RDFI.

- (i) *Authority and Eligibility.* The ODFI has all necessary authority to initiate the XCK Entry, and the item to which the XCK Entry relates satisfies the eligibility requirements of Subsection 2.5.18.2 (XCK Eligible Items).

***SUBSECTION 2.5.18.6 Rules Exceptions for XCK Entries***

The following subsections do not apply to XCK Entries:

- (a) Subsection 2.2.1 (ODFI Agreement With Originator, Third Party Sender or Sending Point);
- (b) Section 2.3 (Authorization and Notice of Entries); and
- (c) Subsection 2.4.1.1 (The Entry is Authorized by the Originator and Receiver).

## **SECTION 2.6 Prenotifications**

***SUBSECTION 2.6.1 General Rule for Prenotifications***

Prior to the initiation of the first credit or debit Entry to a Receiver's account with an RDFI, an Originator may originate a Prenotification Entry to the RDFI.

***SUBSECTION 2.6.2 Six Banking Days' Delay; Return Entries and Notifications of Change***

An Originator that has originated a Prenotification may not originate Entries to a Receiver's account sooner than six Banking Days following the Settlement Date of the Prenotification. If the ODFI receives a Return Entry within the six Banking Day period indicating that the RDFI will not accept Entries, then the Originator must not originate such Entries. If the ODFI receives a Notification of Change within the six Banking Day period indicating that the RDFI requires the requested changes to be made prior to the initiation of such Entries, the Originator must not initiate such Entries unless the requested changes have been made.

## **SECTION 2.7 Recall by ODFI or Originator**

Neither an Originator nor an ODFI has the right to recall an Entry or File, to require the return of or adjustment to an Entry, or to stop the payment or posting of an Entry, once the Entry or File has been received by the Originating ACH Operator, except as allowed by Section 2.8 (Reversing Files), Section 2.9 (Reversing Entries), and Section 2.10 (Reclamation Entries and Written Demands for Payment).

## **SECTION 2.8 Reversing Files**

***SUBSECTION 2.8.1 General Rule for Reversing Files***

An Originator or an ODFI may initiate a Reversing File to reverse all Entries of an Erroneous File.

***SUBSECTION 2.8.2 Obligation to Initiate Correcting Files Corresponding to Reversing Files***

An Originator or ODFI initiating a Reversing File to correct an Erroneous File must concurrently initiate a Correcting File corresponding to the Erroneous File, unless the Erroneous File was a duplicate.

***SUBSECTION 2.8.3 Time Limitations on Initiation of Reversing Files***

An Originator or the ODFI must Transmit each Reversing File and, when appropriate, a corresponding Correcting File, to the ACH Operator within five Banking Days after the Settlement Date of the Erroneous File. The Originator or ODFI must Transmit the Reversing File and any corresponding Correcting File to the ACH Operator within twenty-four hours of the discovery of the Erroneous File.

***SUBSECTION 2.8.4 Indemnification for Reversing Files***

An ODFI that initiates a Reversing File or Correcting File shall indemnify each Participating DFI and ACH Operator from and against any and all claims, demands, losses, liabilities, and expenses, including attorneys' fees and costs, that result directly or indirectly from the debiting or crediting of any Entry in the Reversing File or corresponding Correcting File to the Receiver's account.

**SUBSECTION 2.8.5 Rules Exceptions for Reversing File**

The following sections and subsections do not apply to a Reversing File complying with the requirements of this Section 2.8:

- (a) Section 2.2 (Prerequisites to Origination); and
- (b) Section 2.4 (General Warranties and Liabilities of Originating Depository Financial Institutions).

**SECTION 2.9 Reversing Entries****SUBSECTION 2.9.1 General Rule for Reversing Entries**

An Originator may initiate a Reversing Entry to correct an Erroneous Entry previously initiated to a Receiver's account. The Reversing Entry must be Transmitted to the ACH Operator in such time as to be Transmitted or made available to the RDFI within five Banking Days following the Settlement Date of the Erroneous Entry.

For this Section 2.9 and Subsection 2.12.2 (ODFI Request for Return) only, an Erroneous Entry is defined as an Entry that:

- (a) is a duplicate of an Entry previously initiated by the Originator or ODFI;
- (b) orders payment to or from a Receiver different than the Receiver intended to be credited or debited by the Originator;
- (c) orders payment in a dollar amount different than was intended by the Originator; or
- (d) is a credit PPD Entry satisfying each of the following criteria:
  - (i) the credit PPD Entry is for funds related to a Receiver's employment;
  - (ii) the value of the credit PPD Entry is fully included in the amount of a Check delivered to the same Receiver at or prior to the Receiver's separation from employment; and

- (iii) the credit PPD Entry was Transmitted by the Originator prior to the delivery of the Check to the Receiver.

The Originator must make a reasonable attempt to notify the Receiver of the Reversing Entry and the reason for the Reversing Entry no later than the Settlement Date of the Reversing Entry. For a credit PPD Entry satisfying the criteria of Subsection 2.9.1(d) above, the Originator must notify the Receiver of the Reversing Entry at the time the Check is delivered to the Receiver.

**SUBSECTION 2.9.2 Indemnification for Reversing Entries**

An ODFI that initiates a Reversing Entry shall indemnify each RDFI and ACH Operator from and against any and all claims, demands, losses, liabilities, and expenses, including attorneys' fees and costs, that result directly or indirectly from the debiting or crediting of the Reversing Entry to the Receiver's account.

**SUBSECTION 2.9.3 Rules Exceptions for Reversing Entries**

The following subsections do not apply to Reversing Entries complying with the requirements of this Section 2.9:

- (a) Subsection 2.3 (Authorization and Notice of Entries); and
- (b) Subsection 2.4.1.1 (The Entry is Authorized by the Originator and Receiver).

**SECTION 2.10 Reclamation Entries and Written Demands for Payment****SUBSECTION 2.10.1 Prerequisites for a Reclamation Entry or Written Demand for Payment**

An Originator or ODFI may initiate a Reclamation Entry or written demand for payment with respect to a previously Transmitted credit Entry to a Receiver's account under the following circumstances:

- (a) The Receiver has died and the Receiver's right to receive one or more pension, annuity, or other benefit payments has

terminated before the receipt by the RDFI of one or more credit Entries to the Receiver's account; and

- (b) Neither the Receiver's estate nor any other holder of the account is entitled to the payments.

***SUBSECTION 2.10.2 Amount of a Reclamation Entry or Written Demand for Payment***

An Originator or ODFI must not initiate a Reclamation Entry or written demand for payment in an amount that exceeds the amount of any payment to which the Receiver was not entitled.

***SUBSECTION 2.10.3 Content of a Reclamation Entry or Written Demand for Payment***

An Originator or ODFI must identify in each Reclamation Entry or written demand for payment the name of the Receiver, the account at the RDFI credited on the Receiver's behalf, and the exact amount and approximate date of initiation for each Entry involved.

***SUBSECTION 2.10.4 Timing Requirements for Reclamation Entries and Written Demands for Payment***

An Originator or ODFI must originate a Reclamation Entry or written demand for payment within five Banking Days after the Originator receives notice of the death of the Receiver. If a Reclamation Entry is returned by the RDFI, the Originator may make a written demand for payment within fifteen Banking Days after it receives the returned Reclamation Entry. For this subsection, notice received by the Originator is considered to be effective from the time specified in Section 1-201(27) of the Uniform Commercial Code (1978 Official Text).

***SUBSECTION 2.10.5 Superiority of United States Government Claims***

A claim or demand by an Originator (or ODFI on the Originator's behalf) pursuant to this Section 2.10 will be subordinate to claims or potential claims of the United States Government under 31 C.F.R. Part 210. The Originator must reimburse the RDFI for any payments made to the Originator pursuant to this Section 2.10 that are subject to a subsequent claim of the United States Government under 31 C.F.R. Part 210.

***SUBSECTION 2.10.6 Alteration of Reclamation Provisions by Agreement – Originator***

Notwithstanding any other provision of these Rules, the liability provisions contained within this Section 2.10 and Subsection 3.6.2 (Liability of RDFI for Reclamation Entries and Written Demands for Payment) may be altered, amended, or superseded by a written agreement between the Originator and RDFI only if the agreement clearly and conspicuously states on its face that it is a master agreement, that both the Originator and RDFI consider it to be a master agreement, and that it is applicable to all payments subject to this Section 2.10 and Subsection 3.6.2 Transmitted by the Originator to the RDFI for the benefit of all Receivers having accounts at the RDFI.

***SUBSECTION 2.10.7 Specific Warranties for Reclamation Entries***

In addition to the other warranties contained within these Rules, an ODFI initiating a Reclamation Entry warrants the following to each RDFI and ACH Operator in connection with such Reclamation Entry at the time of Transmission:

- (a) all information is accurate and applies to the Receiver and account identified in the Reclamation Entry or written demand for payment;
- (b) the Reclamation Entry was originated, or written demand for payment was sent, within the time limits set forth in Subsection 2.10.4 (Timing Requirements for Reclamation Entries and Written Demands for Payment), satisfies the conditions set forth in Subsection 2.10.1 (Prerequisites for a Reclamation Entry or Written Demand for Payment), and is authorized by applicable Legal Requirements; and
- (c) the RDFI's right and obligation to pay the Reclamation Entry are not limited to the number of parties having an interest in the account.

***SUBSECTION 2.10.8 Rules Exceptions for Reclamation Entries and Written Demands for Payment***

The following subsections do not apply to Reclamation Entries complying with the requirements of this Section 2.10:



- (a) Subsection 2.3.2.6 (Notices of Variable Debits to Consumer Accounts);
- (b) Subsection 2.4.1.1(b) and (c) (The Entry is Authorized by the Originator and Receiver);
- (c) Subsection 2.4.1.5 (Credit Entry Is Timely);
- (d) Subsection 2.4.1.6 (Debit Entry Satisfies an Obligation or Corrects an Error).

## SECTION 2.11 Notifications of Change

### ***SUBSECTION 2.11.1 ODFI and Originator Action on Notification of Change (NOC)***

An ODFI must accept a Notification of Change (also known as “NOC” and “COR Entry”) or a corrected NOC that complies with the requirements of Appendix Five (Notification of Change) and is Transmitted by the RDFI within the time limits established by these Rules, unless otherwise provided for in this Section 2.11.

For each NOC or corrected NOC it receives, an ODFI must provide the Originator with the following minimum information within two Banking Days of the Settlement Date of the NOC or corrected NOC:

- (a) company name;
- (b) company identification;
- (c) company Entry description;
- (d) effective Entry date;
- (e) DFI account number;
- (f) individual name/receiving company name;
- (g) individual identification number/identification number;
- (h) change code;
- (i) original Entry trace number;
- (j) original RDFI identification; and
- (k) corrected data.

The Originator must make the changes specified in the NOC or corrected NOC within six Banking Days of receipt of the NOC information or prior to initiating another Entry to the Receiver’s account, whichever is later.

### ***SUBSECTION 2.11.2 ODFI Right to Refuse Notification of Change Entries***

An ODFI may refuse an NOC or corrected NOC for all Entries except IAT Entries if:

- (a) the NOC or corrected NOC contains incorrect information;
- (b) the NOC or corrected NOC does not contain all information required by Appendix Five (Notification of Change); or
- (c) the NOC otherwise fails to comply with Appendix Five (Notification of Change).

To refuse an NOC or corrected NOC, the ODFI must Transmit a refused NOC complying with Appendix Five (Notification of Change) to its ACH Operator within fifteen days of receipt of the NOC or corrected NOC.

## SECTION 2.12 Return Entries

### ***SUBSECTION 2.12.1 ODFI Acceptance of Timely Return Entries and Extended Return Entries***

An ODFI must accept Return Entries and Extended Return Entries that comply with these Rules and that are Transmitted by the RDFI within the time limits established by these Rules.

### ***SUBSECTION 2.12.2 ODFI Request for Return***

An ODFI may, orally or in writing, request an RDFI to return an Erroneous Entry initiated by the ODFI. The RDFI may, but is not obligated to, comply with this request. For purposes of this subsection, an Erroneous Entry has the same meaning as in Section 2.9 (Reversing Entries).

### ***SUBSECTION 2.12.3 Indemnification by ODFI for Requested Returns***

An ODFI requesting that an RDFI return an Erroneous Entry indemnifies the RDFI from and against any and all claims, demands, losses, liabilities and expenses, including attorneys’ fees and costs, resulting directly or indirectly from compliance by the RDFI with such request.

***SUBSECTION 2.12.4 Reinitiation of Returned Entries***

An Originator or ODFI may reinitiate any Entry, other than an RCK Entry, that was previously returned if:

- (a) the Entry was returned for insufficient or uncollected funds;
- (b) the Entry was returned for stopped payment and reinitiation has been authorized by the Receiver; or
- (c) the Originator or ODFI has taken corrective action to remedy the reason for the return.

The Originator or ODFI must reinitiate the Entry within one hundred eighty days after the Settlement Date of the original Entry. An Originator or ODFI must not reinitiate an Entry that has been returned for insufficient or uncollected funds more than two times following the return of the original Entry.

***SUBSECTION 2.12.5 Dishonor of Return Entries******SUBSECTION 2.12.5.1 Dishonor of Return by ODFI***

An ODFI may dishonor a Return Entry, with the exception of an IAT Return Entry, if:

- (a) the RDFI failed to return the Entry within the time limits established by these Rules;
- (b) information in one or more of the following fields of the Return Entry is incorrect or missing:
  - (i) DFI Account Number
  - (ii) Original Entry Trace Number
  - (iii) Dollar Amount
  - (iv) Individual Identification Number/ Identification Number
  - (v) Transaction Code
  - (vi) Company Identification Number
  - (vii) Effective Entry Date

- (c) the Return Entry was misrouted;
- (d) the Return Entry was a duplicate;
- (e) the Return Entry is coded as the Return of an Erroneous Entry at the request of the ODFI, as permitted by Subsection 2.12.2 (ODFI Request for Return), but the ODFI did not make such a request; or
- (f) the Return Entry is coded as a permissible Return Entry, as permitted by Subsection 3.8.3.5 (Late Return Entries for CCD or CTX Entries with ODFI Agreement), but the ODFI did not agree to accept the Return Entry.

To dishonor a Return Entry, the ODFI must Transmit a dishonored Return Entry complying with Appendix Four (Return Entries) to its ACH Operator within five Banking Days after the Settlement Date of the Return Entry.

***SUBSECTION 2.12.5.2 ODFI Must Accept a Contested Dishonored Return Entry***

An ODFI must accept a contested dishonored Return Entry (i.e., an Entry rejecting the ODFI's dishonor of the Return Entry). Any further action regarding a contested dishonored Return Entry must be pursued outside of the ACH Network.

***SUBSECTION 2.12.6 Discretion to Accept Late Returns***

An ODFI may agree to accept a late Return Entry at its discretion.

***SECTION 2.13 Refusal of Acknowledgment (ACK and ATX ) Entries***

An ODFI may refuse an ACK or ATX Entry if:

- (a) the ACK or ATX Entry contains incorrect information;
- (b) the ACK or ATX Entry does not contain all information required by Appendix Six (Acknowledgment Entries); or
- (c) the ACK or ATX Entry otherwise fails to comply with Appendix Six (Acknowledgment Entries).

To refuse an ACK or ATX Entry, the ODFI must Transmit a refused ACK or ATX Entry, complying with the requirements of Appendix Six, to the Originating ACH Operator within fifteen days of receipt of the ACK or ATX Entry.

## **SECTION 2.14 Return Fee Entries**

### ***SUBSECTION 2.14.1 General Rule for Return Fee Entries***

An Originator may originate a Return Fee Entry, to the extent permitted by applicable Legal Requirements, in relation to the return of:

- (a) a debit Entry to a Consumer Account of a Receiver;
- (b) an ARC, BOC or POP Entry to a non-Consumer Account of a Receiver; or
- (c) an item that was eligible to be converted to a debit Entry, but was not converted to an Entry.

For a Return Fee Entry based on the return of an Entry, the Entry must have been returned for insufficient or uncollected funds under the return codes R01 or R09. For a Return Fee Entry based on the return of a Check, the returned Check must be marked to indicate that it was returned due to “Not Sufficient Funds,” “NSF,” “Uncollected Funds,” or comparable language.

### ***SUBSECTION 2.14.2 Authorization of Return Fee Entries***

An Originator may satisfy the requirements for authorization of the Return Fee Entry by providing notice, at the time that the underlying Entry is authorized or the original item is accepted, of the Return Fee Entry in form, process and content permissible under Regulation E, regardless of whether the account to be debited is a Consumer Account or a non-Consumer Account.

The notice must include the following, or substantially similar, language:

“If your payment is returned unpaid, you authorize us to make a one-time electronic fund transfer from your account to collect a fee of [\$ ],” or

“If your payment is returned unpaid, you authorize us to make a one-time electronic fund transfer from your account to collect a fee. The fee will be determined [by/as follows]: [ ].”

### ***SUBSECTION 2.14.3 Formatting Requirements for Return Fee Entries***

A Return Fee Entry authorized by notice in accordance with Subsection 2.14.2 (Authorization of Return Fee Entries) must use the Standard Entry Class Code “PPD.” A Return Fee Entry authorized in a manner other than by notice must use the Standard Entry Class Code appropriate to the manner of authorization.

An Originator must submit Return Fee Entries as a separate batch that contains the words “RETURN FEE” in the Company Entry Description field of the Company/Batch Header Record.

The Company Name field of a Return Fee Entry must contain the same name of the Originator as identified in the Company Name field of the underlying Entry. For a Return Fee Entry based on the return of a Check, the Company Name field must contain the name of the payee of the Check.

### ***SUBSECTION 2.14.4 Other Requirements of Return Fee Entries***

An Originator may impose only one Return Fee in relation to an underlying Entry or item that was returned, whether such Return Fee is collected via the ACH or otherwise. An Originator may re-initiate a Return Fee Entry in accordance with Subsection 2.12.4 (Reinitiation of Returned Entries), but an Originator may not originate a Return Fee Entry with respect to the return of another Return Fee Entry.

A Return Fee Entry authorized by notice in accordance with Subsection 2.14.2 (Authorization of Return Fee Entries) must have a Settlement Date within 45 days of the Settlement Date of the Return Entry of the underlying debit Entry or the return of the other underlying item.

### ***SUBSECTION 2.14.5 Additional ODFI Warranty for Return Fee Entries***

In addition to the other warranties contained within these Rules, an ODFI initiating a Return Fee Entry warrants to each RDFI and ACH Operator

that the Originator imposing the Return Fee has not and will not impose any other Return Fee in relation to the underlying Entry or item that was returned unpaid.

## **SECTION 2.15 Obligations of Third-Party Senders, and of ODFIs and Originators That Use Third-Party Senders**

An ODFI may originate Entries initiated by a Third-Party Sender, subject to compliance with these Rules, including Section 2.2 (Prerequisites to Origination).

### ***SUBSECTION 2.15.1 Identification of Originators by Third-Party Senders***

A Third-Party Sender must, upon the ODFI's request, provide the ODFI with any information the ODFI reasonably deems necessary to identify each Originator for which the Third-Party Sender Transmits Entries. The information must be provided to the ODFI by the Third-Party Sender within two Banking Days of receipt of the ODFI's request.

### ***SUBSECTION 2.15.2 Warranty of and Indemnification by Third-Party Senders***

A Third-Party Sender initiating one or more Entries through an ODFI to a Receiver's account warrants to the ODFI that the Originator has agreed to assume the responsibilities of an Originator under these Rules. In any case where such Originator fails to perform its obligations as an Originator under these Rules, the Third-Party Sender authorizing such Entry indemnifies the ODFI from and against any and all claims, demands, losses, liabilities, and expenses, including attorneys' fees and costs, that result directly or indirectly from the failure of the Originator to perform its obligations as an Originator under these Rules.

In addition to the other warranties contained within these Rules, a Third-Party Sender also makes to the ODFI each of the warranties set forth at Subsection 2.4.1 (General ODFI Warranties), Subsection 2.5.17.4 (Additional ODFI Warranties for WEB Entries), and Section 5.2 (Warranties of Gateway).

### ***SUBSECTION 2.15.3 Performance and Warranty of ODFI Obligations by Third-Party Senders***

To the extent that a Third-Party Sender performs any of the obligations of an ODFI under these Rules, the Third-Party Sender must perform the requirements of these Rules otherwise applicable to the ODFI, and warrants that it is legally able to do so. The performance by a Third-Party Sender of any of the obligations of the ODFI under these Rules shall not relieve the ODFI of any of its obligations under these Rules.

### ***SUBSECTION 2.15.4 Payment to ODFI by Third-Party Senders or Originators***

A Third-Party Sender agrees to make payment to the ODFI for any credit Entries it originates and for any debit Entries returned by the RDFI. An Originator that utilizes a Third-Party Sender to authorize an ODFI to Transmit Entries agrees to make payment to the ODFI for any credit Entries originated and for any such Entries returned by the RDFI to the extent that the ODFI does not receive payment from the Third-Party Sender.

### ***SUBSECTION 2.15.5 Performance of Originator Responsibilities by Third-Party Senders***

A Third-Party Sender shall be jointly and severally liable with each of its Originators for the retention and delivery to the ODFI or RDFI, as required by these Rules, of any Records, documentation or data regarding records of authorization of Entries, copies of items and copies of Eligible Source Documents.

## **SECTION 2.16 Authorization by ODFI for Release of Designated Data**

An ODFI authorizes and instructs each ACH Operator to provide to the National Association Designated Data related to Entries Transmitted to or by the ODFI, and will hold each ACH Operator harmless against any claim by the ODFI arising out of the ACH Operator's compliance with such instructions.

## **SECTION 2.17 ODFI Reporting Requirements to National Association**

### ***SUBSECTION 2.17.1 Direct Access Registration***

#### ***SUBSECTION 2.17.1.1 ODFIs with Direct Access Debit Participants***

An ODFI that has one or more Direct Access Debit Participants must register each relationship with the National Association prior to originating Entries for the Direct Access Debit Participant(s) by providing the following information for each Direct Access Debit Participant:

- (a) the ODFI's name;
- (b) the ODFI's routing number(s) provided for use by a Direct Access Debit Participant;
- (c) the name, title, telephone number, and address for a contact person at the ODFI;
- (d) an identification of whether the Direct Access Debit Participant is an Originator, Third-Party Service Provider, or Third-Party Sender;
- (e) the name, title, address, telephone number, and taxpayer identification number(s) for the Originator, Third-Party Service Provider, or Third-Party Sender;
- (f) the number of Originators Transmitting debit Entries through the Third-Party Service Provider or Third-Party Sender;
- (g) the identification of the ACH Operator through which each Direct Access Debit Participant Transmits Entries; and
- (h) a statement that the ODFI's board of directors, committee of the board of directors, or its designee has approved the Direct Access Debit Participant.

An ODFI must provide the National Association with updated information following any change to the information previously provided, including any termination of the Direct Access Debit Participant.

#### ***SUBSECTION 2.17.1.2 ODFIs with No Direct Access Debit Participants***

An ODFI that has no Direct Access Debit Participants must provide the National Association with the following information:

- (a) the ODFI's name;
- (b) the ODFI's routing number;
- (c) the name, title, telephone number, and address for a contact person at the ODFI; and
- (d) a statement acknowledging that the ODFI has no Direct Access Debit Participants.

#### ***SUBSECTION 2.17.1.3 Direct Access Data Reporting***

An ODFI that has one or more Direct Access Debit Participants must provide the following data to the National Association on a quarterly basis for each relationship, in total and by Standard Entry Class Code:

- (a) average daily debit Entry origination volume;
- (b) average daily debit Entry origination dollar value;
- (c) average daily debit Entry return volume;
- (d) average daily debit Entry return dollar value; and
- (e) average daily rates of return.

### ***SUBSECTION 2.17.2 ODFI Return Rate Reporting***

Upon receipt of a written request by the National Association to the ODFI's Chief Operating Officer, an ODFI must provide, via traceable delivery method, to the National Association within ten Banking Days the following information for each Originator or Third-Party Sender:

- (a) the complete legal name; any doing-business-as name(s); and taxpayer identification number(s) of the Originator or Third-Party Sender;
- (b) a statement as to whether the Originator or Third-Party Sender acts as the ODFI's



Sending Point with direct access to the ACH Operator;

(c) the Originator's or Third-Party Sender's origination volume for the time period specified by the National Association;

(d) the actual return rate for unauthorized Entries, in total and by SEC Code, for the Originator or Third-Party Sender when computed by either:

(i) dividing the number of debit Entries returned as unauthorized for the preceding sixty days or two calendar months by the total number of debit Entries contained within the File(s) in which the original Entries were transmitted; or

(ii) dividing the number of debit Entries returned as unauthorized for the preceding sixty days or two calendar months by the total number of debit Entries originated for the preceding sixty days or two calendar months, respectively; and

(e) a statement either:

(i) refuting NACHA's claim that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent; or

(ii) explaining the reason(s) causing the Originator's or Third-Party Sender's return rate for unauthorized Entries to have exceeded one percent.

*SUBSECTION 2.17.2.1 Additional Reporting When the Return Threshold is Exceeded*

► *SUBSECTION 2.17.2.1 Additional ODFI Action and Reporting When the Return Threshold is Exceeded*

When the Originator's or Third-Party Sender's return rate for unauthorized Entries, as calculated in Subsection 2.17.2 (ODFI Return Rate Reporting), exceeds one percent, the ODFI must also provide the National Association with the following information within the ten Banking Day time frame:

(a) a detailed plan and timeline for reducing the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below one percent for unauthorized Entries within sixty days after receipt of the National Association's written request for information, as described within Subsection 2.17.2;

► (a) *a detailed plan and timeline for reducing the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below one percent for unauthorized Entries within thirty days after receipt of the National Association's written request for information, as described within Subsection 2.17.2;*

(b) the address, telephone number, contact person of the Originator or Third-Party Sender, and, when such Originator or Third-Party Sender is a privately-held company, the following additional information: principal owner(s) and officers of the Originator or Third-Party Sender;

(c) a description of the nature of the business of the Originator or Third-Party Sender, and the methods used by the Originator(s) to obtain proper authorization for ACH transactions;

(d) the length of the ACH relationship between the ODFI and the Originator or Third-Party Sender;

(e) the date of the ODFI's most recent review of the exposure limit for the Originator or Third-Party Sender pursuant to Subsection 2.2.2 (ODFI Risk Management); and

(f) date and proof of completion of the ODFI's most recent ACH audit in accordance with the requirements of these Rules and Appendix Eight (Rule Compliance Audit Requirements).

► *Approved April 2, 2012, Effective March 15, 2013*

**SUBSECTION 2.17.2.2 ODFI Reduction of Return Rate**

The ODFI must reduce the Originator's or Third-Party Sender's return rate for unauthorized Entries to a rate below one percent within sixty days after receipt of the National Association's written request for information and maintain that return rate below one percent for an additional one hundred eighty days.

► *The ODFI must reduce the Originator's or Third-Party Sender's return rate for unauthorized Entries to a rate below one percent within thirty days after receipt of the National Association's written request for information and maintain that return rate below one percent for an additional one hundred eighty days.*

## ARTICLE THREE

# Rights and Responsibilities of RDFIs and Their Receivers

### SECTION 3.1 General Rights and Responsibilities of RDFIs

**SUBSECTION 3.1.1 RDFI Must Accept Entries**

An RDFI must accept Entries that comply with these Rules and are received with respect to an account maintained with that RDFI, subject to its right to return Entries under these Rules. An Entry is deemed to be received by an RDFI on the Banking Day on which the Entry is made available by the Receiving ACH Operator to the RDFI or to the RDFI's Receiving Point.

**SUBSECTION 3.1.2 RDFI May Rely Solely on Account Numbers for Posting of Entries**

An RDFI may rely solely on the account number contained in an Entry for the purpose of posting

the Entry to a Receiver's account, regardless of whether the name of the Receiver in the Entry matches the name associated with the account number in the Entry.

**SUBSECTION 3.1.3 RDFI May Rely on Standard Entry Class Codes**

An RDFI may rely on the Standard Entry Class Code contained in an Entry for the purpose of complying with these Rules.

**SUBSECTION 3.1.4 RDFI May Request Copy of Receiver's Authorization of Entry from ODFI**

An RDFI may request, in writing, that an ODFI provide a copy of the Receiver's authorization for any Entry, subject to the limitations contained in these Rules on an Originator's obligation to retain and provide a copy of a Receiver's authorization for an Entry (see Subsection 2.3.2.5 – Retention and Provision of the Record of Authorization). This subsection does not apply to credit Entries for which both the Originator and Receiver are natural persons.

**SUBSECTION 3.1.5 RDFI Obligation to Provide Information About Entries****SUBSECTION 3.1.5.1 RDFI Must Provide Entry Information for Consumer Accounts**

An RDFI must provide or make available to each of its Receivers the following information concerning each credit and debit Entry to a Consumer Account of such Receiver:

- (a) Posting date to Receiver's account;
- (b) Dollar amount of the Entry;
- (c) Company name/Originator name;
- (d) Company Entry description;
- (e) Account type;
- (f) Account number;
- (g) Amount of any charges assessed against the account for services related to the Entry;

► *Approved April 2, 2012, Effective March 15, 2013*

- (h) Balances in the Receiver's account at the beginning and at the close of the statement period;
- (i) For an ARC, BOC, RCK or XCK Entry, or an IAT Entry where the Transaction Type Code field contains a value of "ARC," "BOC," or "RCK," the Check Serial Number;
- (j) For an MTE, POS or SHR Entry, or an IAT Entry where the Transaction Type Code field contains a value of "MTE," "POS," or "SHR," the:
  - (i) Terminal identification code and/or terminal location, as those terms are defined in Regulation E;
  - (ii) Terminal city, as that term is defined in Regulation E; and
  - (iii) Terminal state, as that term is defined in Regulation E;
- (k) For a POP Entry, or an IAT Entry where the Transaction Type Code field contains a value of "POP," the:
  - (i) Check Serial Number;
  - (ii) Terminal city, as that term is defined in Regulation E; and
  - (iii) Terminal state, as that term is defined in Regulation E;
- (l) Address and telephone number to be used for inquiries or notices of errors preceded by "Direct Inquiries To" or similar language.

References to data elements contained in an Entry are further defined in Appendix Three (ACH Record Format Specifications). The requirements of this subsection do not apply to a Receiver's passbook accounts which may not be accessed by electronic funds transfers other than preauthorized credit transfers. The requirements of this subsection apply regardless of whether or not Regulation E imposes similar requirements on the RDFI.

***SUBSECTION 3.1.5.2 RDFI Must Provide Entry Information to Receivers of ARC, BOC, or POP Entries to Non-Consumer Accounts***

An RDFI must provide or make available to a Receiver the contents of the Check Serial Number field of an ARC, BOC, or POP Entry, or an IAT Entry where the Transaction Type Code field contains a value of "ARC," "BOC," or "POP," to a non-Consumer Account.

***SUBSECTION 3.1.5.3 RDFI Must Provide Payment-Related Information to Receivers of CCD, CTX, CIE and IAT Entries to Non-Consumer Accounts***

Upon the request of a Receiver, an RDFI must provide to the Receiver all information contained within the Payment Related Information field of an Addenda Record(s) Transmitted with a CCD or CTX Entry, or a CIE or IAT Entry to a non-Consumer Account. The RDFI must provide this information by the opening of business on the RDFI's second Banking Day following the Settlement Date of the Entry.

***SUBSECTION 3.1.6 RDFI Must Provide Certain Notices to the Receiver For Credit Entries Subject to Article 4A***

For a credit Entry subject to Article 4A, an RDFI must notify the Receiver of each of the following:

- (a) the Entry may be Transmitted through the ACH;
- (b) the rights and obligations of the Receiver concerning the Entry are governed by and construed in accordance with the laws of the State of New York, unless the Receiver and the RDFI have agreed that the laws of another jurisdiction govern their rights and obligations;
- (c) credit given by the RDFI to the Receiver for the Entry as provided by Subsection 3.3.1 (Availability of Credit Entries to Receivers) is provisional until the RDFI has received final settlement through a Federal Reserve Bank or otherwise has received payment as provided for in Section 4A-403(a) of Article 4A;
- (d) if the RDFI does not receive such payment for the Entry, the RDFI is entitled to a refund from the Receiver in the amount of



the credit to the Receiver's account, and the Originator will not be considered to have paid the amount of the credit Entry to the Receiver; and

- (e) these Rules do not require the RDFI to provide the Receiver with notice that the RDFI has received the Entry unless the RDFI has agreed to do so.

This notice may be included as part of an agreement entered into by the Receiver binding the Receiver to these Rules, or it may be provided to the Receiver separately.

***SUBSECTION 3.1.7 No RDFI Obligation to Notify Receiver of Receipt of Entry***

An RDFI is not required to notify a Receiver of receipt of an Entry unless otherwise provided for in an agreement between the RDFI and Receiver, or required by applicable Legal Requirements which cannot be varied by these Rules or by agreement of the parties.

***SUBSECTION 3.1.8 Authorization by RDFI for Release of Designated Data***

An RDFI authorizes and instructs each ACH Operator to provide to the National Association Designated Data related to Entries Transmitted to or by the RDFI, and will hold each ACH Operator harmless against any claim by the RDFI arising out of the ACH Operator's compliance with such instructions.

**SECTION 3.2 General Warranties and Liabilities of RDFIs**

***SUBSECTION 3.2.1 General RDFI Warranties***

An RDFI warrants to each ODFI and ACH Operator that it has the power under applicable Legal Requirements to receive Entries as provided in these Rules.

***SUBSECTION 3.2.2 Indemnity by the RDFI for Breach of Warranty***

An RDFI shall indemnify every ODFI and ACH Operator from and against any and all claims, demands, losses, liabilities, or expenses, including attorneys' fees and costs, that result directly or indirectly from any breach of warranty

under Subsection 1.2 (Participating DFIs Must Comply with Rules), Subsection 3.2.1 (General RDFI Warranties), or Subsection 3.4.5 (Specific Warranties for RCK Entries).

**SECTION 3.3 Timing Requirements for RDFI to Make Credit and Debit Entries Available**

***SUBSECTION 3.3.1 Availability of Credit Entries to Receivers***

***SUBSECTION 3.3.1.1 General Rule for Availability of Credits***

An RDFI must make the amount of each credit Entry received from its ACH Operator available to the Receiver for withdrawal no later than the Settlement Date of the Entry, subject to its right to return the Entry under these Rules. An RDFI that reasonably suspects that a credit Entry is unauthorized is exempt from this requirement, subject to applicable Legal Requirements. An RDFI invoking such an exemption must promptly notify the ODFI.

***SUBSECTION 3.3.1.2 Availability for Certain Credit PPD Entries***

For a credit PPD Entry that is made available to the RDFI by its ACH Operator by 5:00 p.m. (RDFI's local time) on the Banking Day prior to the Settlement Date, the RDFI must make the amount available to the Receiver for withdrawal at the opening of business on the Settlement Date. For purposes of this subsection, opening of business is the later of 9:00 a.m. (RDFI's local time) or the time the RDFI's teller facilities (including ATMs) are available for customer account withdrawals. An RDFI that reasonably suspects that a credit Entry is unauthorized is exempt from this requirement, subject to applicable Legal Requirements. An RDFI invoking such an exemption must promptly notify the ODFI.

***SUBSECTION 3.3.1.3 Receiver Must Credit Originator's Account***

A Receiver must credit the Originator with the amount of the Entry credited to the Receiver's account as of the Settlement Date. The Receiver has a reasonable period of time after the Entry

is credited to the Receiver's account to post the amount of the credit to the Originator's account or return the Entry to the RDFI. For purposes of this subsection, a Receiver is considered to act within a reasonable period of time if the Receiver posts the credit or returns the Entry no later than the time at which the Receiver would usually complete the process of posting credits or returning these payments. A Receiver that returns an Entry according to the requirements of this subsection is not considered to have accepted the Entry.

***SUBSECTION 3.3.1.4 Credit Entries Subject to Article 4A Are Provisional***

For a credit Entry subject to Article 4A, credit given to a Receiver by an RDFI as provided in this Subsection 3.3.1 (Availability of Credit Entries to Receivers) is provisional until the RDFI has received final settlement through a Federal Reserve Bank or has otherwise received payment as provided in Section 4A-403(a) of UCC Article 4A. If such settlement or payment is not received, the RDFI is entitled to a refund from the Receiver of the amount credited, and the Originator is considered not to have paid the Receiver the amount of the Entry. This Subsection 3.3.1.4 applies only if the Receiver has agreed to be bound by the Rules contained in this Subsection 3.3.1.4.

***SUBSECTION 3.3.2 Timing of Debit Entries***

An RDFI must not debit the amount of any Entry to a Receiver's account prior to the Settlement Date of the Entry, even if the Effective Entry Date (as defined in Appendix Three (ACH Record Format Specifications)) of the Entry is different from the Settlement Date of the Entry.

**SECTION 3.4 Provisions for Receipt of Specific Types of Entries**

***SUBSECTION 3.4.1 Specific Provision for CCD and CTX Entries***

***SUBSECTION 3.4.1.1 Rule Exception Regarding Copy of Receiver's Authorization***

The requirements of Subsection 3.1.4 (RDFI May Request Copy of Receiver's Authorization of Entry from ODFI) do not apply to CCD and CTX Entries.

***SUBSECTION 3.4.1.2 Rule Exception for CCD and CTX Entries to Consumer Accounts***

The requirements of Subsection 3.1.3 (RDFI May Rely on Standard Entry Class Codes) do not apply when CCD or CTX Entries are to a consumer account.

***SUBSECTION 3.4.2 Specific Provision for DNE Entry***

Receipt of a DNE Entry from a United States Government agency constitutes notice of death.

***SUBSECTION 3.4.3 Specific Provisions for IAT Entries***

***SUBSECTION 3.4.3.1 Rule Exception for IAT Entries***

The requirements of Subsection 3.8.5 (Receipt of Dishonored Returns) do not apply to the return of IAT Entries.

***SUBSECTION 3.4.3.2 Rule Exception for IAT Entries to Non-Consumer Accounts***

The requirements of Subsection 3.1.4 (RDFI May Request Copy of Receiver's Authorization of Entry from ODFI) do not apply to IAT Entries to non-Consumer Accounts.

***SUBSECTION 3.4.3.3 Specific Provisions for Outbound IAT Entries***

A Participating DFI acting as a Gateway assumes the specific responsibilities and warranties of an RDFI for each Outbound IAT Entry it Transmits. These Rules do not govern the rights and obligations between the Participating DFI and the foreign receiver of the Outbound IAT Entry.

The following sections do not apply to Outbound IAT Entries:

- (a) Subsection 3.1.4 (RDFI May Request Copy of Receiver's Authorization of Entry from ODFI);
- (b) Subsection 3.5 (Specific Provisions for Prenotifications);
- (c) Subsection 3.6 (Specific Provisions for Reclamation Entries and Written Demands for Payment).

**SUBSECTION 3.4.4 Specific Provision for MTE and SHR Entries**

The following subsections do not apply to SHR Entries, and to MTE Entries if the ODFI and RDFI are parties to an agreement (other than these Rules) for the provision of services relating to MTE Entries:

- (a) Subsection 3.1.4 (RDFI May Request Copy of Receiver's Authorization of Entry from ODFI);
- (b) Subsection 3.11 (RDFI Obligation to Recredit Receiver); and
- (c) Subsection 3.13 (RDFI Right to Transmit Extended Return Entries)

**SUBSECTION 3.4.5 Specific Warranties for RCK Entries**

In addition to the other warranties contained in these Rules, an RDFI receiving an RCK Entry warrants that it will (a) display the descriptive information contained in the Entry on the relevant periodic statement sent to the Receiver by the RDFI, and (b) accord the Receiver the same rights with respect to the RCK Entry as are provided for items under Revised Article 4 of the 1990 Official Text of the Uniform Commercial Code, except as otherwise provided in the RDFI's agreement with the Receiver.

**SUBSECTION 3.4.6 Specific Provisions for TRC and TRX Entries (Check Truncation)**

The following sections do not apply to TRC and TRX Entries:

- (a) Section 1.7 (Choice of Law);
- (b) Subsection 3.1.1 (RDFI Must Accept Entries);
- (c) Subsection 3.1.2 (RDFI May Rely Solely on Account Numbers for Posting of Entries);
- (d) Subsection 3.1.4 (RDFI May Request Copy of Receiver's Authorization of Entry from ODFI);
- (e) Subsection 3.1.5 (RDFI Obligation to Provide Information About Entries);

- (f) Subsection 3.1.7 (No RDFI Obligation to Notify Receiver of Receipt of Entry);
- (g) Section 3.2 (General Warranties and Liabilities of RDFIs);
- (h) Section 3.3 (Timing Requirements for RDFI to Make Credit and Debit Entries Available);
- (i) Subsection 3.5 (Specific Provisions for Prenotifications);
- (j) Section 3.7 (RDFI Obligation to Stop Payment);
- (k) Section 3.8 (RDFI's Right to Transmit Return Entries);
- (l) Section 3.9 (Notification of Change by RDFIs);
- (m) Section 3.11 (RDFI Obligation to Recredit Receiver);
- (n) Section 3.13 (RDFI Right to Transmit Extended Return Entries);
- (o) Section 8.12 ("Banking Day");
- (p) Section 8.38 ("File");
- (q) Section 8.63 ("Person");
- (r) Appendix Four (Return Entries);
- (s) Appendix Five (Notification of Change);
- (t) Appendix Seven (Compensation Rules);
- (u) Appendix Eight (Rule Compliance Audit Requirements);
- (v) Appendix Nine (Arbitration Procedures).

**SUBSECTION 3.4.7 Specific Provision for XCK Entries**

The Subsection 3.1.4 (RDFI May Request Copy of Receiver's Authorization of Entry from ODFI) does not apply to XCK Entries.

## **SECTION 3.5 Specific Provisions for Prenotifications**

An RDFI that receives a Prenotification Entry must verify that the account number contained in the Prenotification is for a valid account. If the Prenotification does not contain a valid account number, or is otherwise erroneous or unprocessable, then the RDFI must Transmit either (a) a Return Entry, or (b) a Notification of Change.

## **SECTION 3.6 Specific Provisions for Reclamation Entries and Written Demands for Payment**

### ***SUBSECTION 3.6.1 RDFI Right to Debit a Receiver's Account with Respect to Reclamation Entry***

An RDFI may debit a Receiver's account with respect to a Reclamation Entry that meets the requirements of Section 2.10 (Reclamation Entries and Written Demands for Payment) without regard to any Person other than the Receiver having an interest in the account identified in the Reclamation Entry.

### ***SUBSECTION 3.6.2 Liability of RDFI for Reclamation Entries and Written Demands for Payment***

An RDFI shall be liable to the Originator for the amount of each Reclamation Entry or written demand for payment properly initiated by the ODFI pursuant to Section 2.10 (Reclamation Entries and Written Demands for Payment) unless the Reclamation Entry or Written Demand for Payment is properly returned by the RDFI.

### ***SUBSECTION 3.6.3 Amount of RDFI Liability for Reclamation Entries and Written Demands for Payment***

An RDFI's liability under Subsection 3.6.2 (Liability of RDFI for Reclamation Entries and Written Demands for Payment) shall be the lesser of:

- (a) the amount of any payments to which the Receiver was not entitled; or
- (b) the amount in the Receiver's account at the time the RDFI receives:
  - (i) a Reclamation Entry initiated by the ODFI in accordance with Section

2.10 (Reclamation Entries and Written Demands for Payment) and not returned by the RDFI; or

- (ii) a written demand for payment from the ODFI or Originator and has a reasonable opportunity to act upon such demand.

If the RDFI makes a payment pursuant to this Section 3.6 that is subject to a subsequent claim of the United States Government under 31 C.F.R. Part 210, the RDFI is entitled to reimbursement by the Originator in accordance with Subsection 2.10.5 (Superiority of United States Government Claims).

### ***SUBSECTION 3.6.4 Alteration of Reclamation Provisions by Agreement – RDFI***

The liability provisions contained within this Section 3.6 may be altered, amended, or superseded by a written agreement between the Originator and RDFI only if the agreement clearly and conspicuously states on its face that it is a master agreement, that both the Originator and RDFI consider it to be a master agreement, and that it is applicable to all payments subject to the this Section 3.6, notwithstanding any other provision of these Rules. No provision of these Rules prevents an RDFI from expressly agreeing in a master agreement that the liability provisions of this Section 3.6 may be altered, amended, or superseded on a Receiver-by-Receiver basis.

## **SECTION 3.7 RDFI Obligation to Stop Payment**

### ***SUBSECTION 3.7.1 RDFI Obligation to Stop Payment of Entries to Consumer Accounts***

#### ***SUBSECTION 3.7.1.1 RDFI Obligation to Stop Payment of Recurring Entries***

An RDFI must honor a stop payment order provided by a Receiver, either verbally or in writing, to the RDFI at least three Banking Days before the scheduled date of any debit Entry to a Consumer Account other than a Single Entry. An RDFI may in its discretion honor such a stop payment order received within such three Banking Day period. An RDFI shall have no liability or responsibility to any Originator, ODFI, or other Person having any interest in such Entry for honoring a stop payment order in accordance with this subsection.



***SUBSECTION 3.7.1.2 RDFI Obligation to Stop Payment of Single Entries***

An RDFI must honor a stop payment order provided by a Receiver, either verbally or in writing, to the RDFI at such time and in such manner as to allow the RDFI a reasonable opportunity to act upon the order prior to acting on an ARC, BOC, POP, or RCK Entry, or a Single Entry IAT, PPD, TEL, or WEB Entry to a Consumer Account.

***SUBSECTION 3.7.1.3 RDFI May Require Written Confirmation of Stop Payment Orders***

An RDFI may require written confirmation of a verbal stop payment order under this Subsection 3.7.1 within fourteen days of the verbal stop payment order, provided that the RDFI notifies the Receiver of this requirement and provides an address to which the written confirmation should be sent at the time the verbal order is provided. If the RDFI requires written confirmation, the verbal stop payment order will cease to be binding after fourteen days.

For an order to stop all future payments relating to a specific authorization involving a specific Originator, an RDFI may require a Receiver to confirm in writing that the Receiver has revoked the authorization given to the Originator.

***SUBSECTION 3.7.1.4 Effective Period of Stop Payment Orders***

A stop payment order will remain in effect until the earlier of:

- (a) the withdrawal of the stop payment order by the Receiver; or
- (b) the return of the debit Entry, or, where a stop payment order applies to more than one debit Entry relating to a specific authorization involving a specific Originator, the return of all such debit Entries.

***SUBSECTION 3.7.2 RDFI Obligation to Stop Payment of Entries to Non-Consumer Accounts***

An RDFI must honor a stop payment order regarding any debit Entry initiated or to be initiated to a non-Consumer Account that is provided by a Receiver at such time and in such manner as to allow the RDFI a reasonable opportunity to act upon the stop

payment order prior to acting on the debit Entry. The RDFI must comply with a verbal stop payment order only for a period of fourteen calendar days unless the order is confirmed in writing within that fourteen-day period. A written stop payment order regarding any debit Entry initiated or to be initiated to a non-Consumer Account will remain in effect for six months unless it is renewed in writing.

**SECTION 3.8 RDFI's Right to Transmit Return Entries**

An RDFI may return an Entry for any reason, except as otherwise provided for in Subsection 3.8.1 (Restrictions on RDFI's Right to Transmit Return Entries). An RDFI must comply with the requirements of Appendix Four (Return Entries) for each Return Entry it initiates.

An RDFI must Transmit a Return Entry to its ACH Operator by the ACH Operator's deposit deadline for the Return Entry to 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, except as otherwise provided in Subsection 3.8.3 (Exceptions to Timing Requirements for Return Entries) and Section 3.13 (RDFI Right to Transmit Extended Return Entries). A Return Entry which is rejected by an ACH Operator does not satisfy or extend the timing requirements contained in this Section 3.8.

***SUBSECTION 3.8.1 Restrictions on RDFI's Right to Transmit Return Entries******SUBSECTION 3.8.1.1 RDFI May Not Return an Entry Due to the Type of Entry***

An RDFI may not return an Entry because it is a particular type of Entry, unless expressly provided for in Subsection 3.8.2 (Exceptions to Restrictions on RDFI's Right to Transmit Return Entries).

***SUBSECTION 3.8.1.2 RDFI May Not Return an Entry Based on MICR Data***

An RDFI may not return an Entry to a Transaction Account based exclusively on data which were accurately obtained from the on-us field of the MICR line of a Check for the account, unless the RDFI had previously initiated a Notification of Change that was not properly acted upon.

***SUBSECTION 3.8.2 Exceptions to Restrictions on RDFI's Right to Transmit Return Entries***

An RDFI may return:

- (a) an XCK Entry for any reason; and,
- (b) any Entry received (including a Prenotification) that concerns any account that is not a Transaction Account maintained with that RDFI.

***SUBSECTION 3.8.3 Exceptions to Timing Requirements for Return Entries******SUBSECTION 3.8.3.1 Timing Requirements of Return of Credit Entry Subject to Article 4A***

An RDFI must Transmit a Return Entry relating to a credit Entry subject to Article 4A to its ACH Operator prior to the time the RDFI accepts the credit Entry as provided for under Article 4A, unless:

- (a) the Receiver of the Entry does not have an account with the RDFI;
- (b) the Receiver's account has been closed; or
- (c) the RDFI is not permitted by Legal Requirements to receive credits for the Receiver's account.

***SUBSECTION 3.8.3.2 Timing Requirements for Credit Entries Refused by Receiver***

An RDFI must return any credit Entry that is refused by a Receiver. The RDFI must Transmit any such Return Entry to its ACH Operator by the ACH Operator's deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the second Banking Day following the RDFI's receipt of notification from the Receiver that it has refused the Entry.

***SUBSECTION 3.8.3.3 Timing Requirements for Return of RCK Entries***

An RDFI must Transmit a Return Entry relating to an RCK Entry to its ACH Operator by midnight of the RDFI's second Banking Day following the Banking Day of the receipt of the RCK Entry.

***SUBSECTION 3.8.3.4 Timing Requirements for Return of XCK Entries***

An RDFI must Transmit a Return Entry relating to an XCK Entry to its ACH Operator by the ACH Operator's deposit deadline for the Return Entry 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 XCK Entry.

***SUBSECTION 3.8.3.5 Late Return Entries for CCD or CTX Entries with ODFI Agreement***

If an RDFI receives written notification from a Receiver that a CCD or CTX Entry that was debited to the Receiver's account was, in whole or in part, not authorized by the Receiver, the RDFI may Transmit a Return Entry to the ODFI after the time for return has expired, provided that the ODFI agrees, either verbally or in writing, to accept the late Return Entry. The Return Entry must be in the amount of the debit Entry and must otherwise comply with the requirements of this Section 3.8 and Appendix Four (Return Entries).

***SUBSECTION 3.8.4 RDFI Must Return Unposted Credit Entries***

An RDFI must return all credit Entries that are not credited or otherwise made available to its Receivers' accounts. The RDFI must Transmit such a Return Entry to its ACH Operator by the ACH Operator's deposit deadline for the Return Entry to 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.

***SUBSECTION 3.8.5 Receipt of Dishonored Returns******SUBSECTION 3.8.5.1 RDFI May Correct Dishonored Returns***

An RDFI may Transmit a corrected Return Entry to its ACH Operator for any Return Entry that was dishonored by the ODFI (as permitted under Subsection 2.12.5.1 (Dishonor of Return by ODFI), Item (b)) because information contained in one or more fields of the Return Entry is incorrect or missing. The RDFI must include the dishonored return information received from the ODFI in

the dishonored Return Entry and must ensure the corrected Return Entry otherwise complies with the requirements of Appendix Four (Return Entries). The RDFI must Transmit the corrected Return Entry to its ACH Operator within two Banking Days after the Settlement Date of the dishonored Return Entry.

***SUBSECTION 3.8.5.2 RDFI May Contest Dishonored Returns***

An RDFI may Transmit a contested dishonored Return Entry that corresponds to the reason for the dishonored Return Entry if:

- (a) the original Return Entry was, in fact, returned within the time limits established by these Rules;
- (b) the original Return Entry was not a duplicate Entry;
- (c) the original Return Entry was complete and contained no errors; or
- (d) the dishonored Return Entry was misrouted or untimely.

The RDFI must Transmit a contested dishonored Return Entry to the ACH Operator within two Banking Days after the Settlement Date of the dishonored Return Entry and must ensure the contested dishonored Return Entry otherwise complies with the requirements of Appendix Four (Return Entries).

**SECTION 3.9 Notification of Change by RDFIs**

***SUBSECTION 3.9.1 General Rule for Notification of Change (COR Entry)***

An RDFI may Transmit a Notification of Change (also known as a COR Entry) to its ACH Operator provided that:

- (a) the COR Entry complies with the requirements of Appendix Five (Notification of Change); and

- (b) the COR Entry is Transmitted within two Banking Days of the Settlement Date of the Entry to which the Notification of Change relates, except for Notifications of Change due to merger, acquisition, or other similar events.

***SUBSECTION 3.9.2 RDFI May Correct a Refused Notification of Change***

If a COR Entry is refused by the ODFI, an RDFI may transmit a corrected COR Entry to the Receiving ACH Operator within five Banking Days after the Settlement Date of the refused COR Entry.

***SUBSECTION 3.9.3 RDFI Warranties for Notifications of Change***

In addition to the other warranties contained in these Rules, an RDFI that transmits a COR Entry, including a corrected COR Entry, warrants to each ODFI and ACH Operator that:

- (a) the information contained within the COR Entry or corrected COR Entry is correct; and
- (b) if the change relates to the Receiver's account number, the Receiver has authorized the change, if authorization is required, and the RDFI has complied with any applicable Legal Requirements for such authorization.

The RDFI's warranty supersedes and renders inoperative any similar warranty (but not any other warranty) of the ODFI contained within Subsection 2.4.1 (General ODFI Warranties).

***SUBSECTION 3.9.4 Indemnity by RDFI for Breach of Notification of Change Warranties***

An RDFI shall indemnify every ODFI and ACH Operator from and against any and all claims, demands, losses, liabilities, or expenses, including attorneys' fees and costs that result directly or indirectly from any breach of the warranties contained in Subsection 3.9.3 (RDFI Warranties for Notifications of Change).



### SECTION 3.10 Specific Provisions for Acknowledgment (ACK and ATX) Entries

An RDFI that receives a credit CCD or CTX Entry may Transmit an ACK or ATX Entry, respectively, complying with the requirements of Appendix Six (Acknowledgment Entries), to its ACH Operator for Transmittal to the appropriate ODFI. The RDFI must Transmit the ACK or ATX Entry to its ACH Operator by the ACH Operator's deposit deadline for the ACK or ATX Entry to be made available to the ODFI no later than the opening of business on the second Banking Day following the Settlement Date of the CCD or CTX Entry to which the ACK or ATX Entry relates.

### SECTION 3.11 RDFI Obligation to Recredit Receiver

An RDFI must recredit the accountholder for a debit Entry that was, in whole or in part, not properly authorized under these Rules, as required by these Rules, applicable Legal Requirements, or agreement between the RDFI and the account holder. This recredit requirement does not apply if the accountholder is a Receiver that has waived any right to recredit in accordance with the requirements of Subsection 3.11.4 (Receiver's Waiver of RDFI's Recredit Obligation).

- *An RDFI must recredit the accountholder to the extent provided in this Section 3.11 for (a) a debit Entry that was, in whole or in part, not properly authorized under these Rules, as required by these Rules, applicable Legal Requirements, or agreement between the RDFI and the account holder; and (b) a debit Entry to a Receiver's account that is part of an Incomplete Transaction. This recredit requirement does not apply if the accountholder is a Receiver that has waived any right to recredit in accordance with the requirements of Subsection 3.11.4 (Receiver's Waiver of RDFI's Recredit Obligation).*

#### SUBSECTION 3.11.1 RDFI General Obligation to Recredit Consumer Accounts

An RDFI must promptly recredit the amount of a debit Entry to a Consumer Account of a Receiver, regardless of the SEC Code of the debit Entry, if it receives notification from the Receiver in

accordance with Section 3.12 (Written Statement of Unauthorized Debit), and such notification is received within fifteen calendar days from the date the RDFI sends or makes available to the Receiver information related to the debit Entry in accordance with Subsection 3.1.5 (RDFI Obligation to Provide Information About Entries).

- *The RDFI's obligation to recredit the Receiver's account for a debit Entry that is part of an Incomplete Transaction does not apply when a partial or erroneous payment was made to the intended third-party payee on the Receiver's behalf.*

#### SUBSECTION 3.11.2 RDFI Specific Obligations to Recredit Accounts for ARC, BOC, POP, RCK and IAT Debit Entries

##### SUBSECTION 3.11.2.1 RDFI Obligation to Recredit Non-Consumer Accounts for ARC, BOC and POP Entries

An RDFI must promptly recredit the amount of an ARC, BOC, or POP Entry to a non-Consumer Account of a Receiver if it receives notification from the Receiver in accordance with Section 3.12 (Written Statement of Unauthorized Debit), and such notification is received within fifteen calendar days from the date the RDFI sends or makes available to the Receiver information related to the debit Entry in accordance with Subsection 3.1.5 (RDFI Obligation to Provide Information About Entries).

##### SUBSECTION 3.11.2.2 RDFI Obligation to Recredit for ARC, BOC and RCK Entries Regarding Stop Payment Orders

An RDFI must promptly recredit the amount of an ARC, BOC, or RCK Entry to the account of a Receiver if, at the time that any such Entry was paid by the RDFI, a stop payment order was in force with respect to (a) the Check that was used as an Eligible Source Document for the ARC or BOC Entry, or (b) the item to which the RCK Entry relates. The RDFI is not required to obtain a Written Statement of Unauthorized Debit.

##### SUBSECTION 3.11.2.3 RDFI Obligation to Recredit for Debit IAT Entries

An RDFI must promptly recredit the amount of a debit IAT Entry to the account of a Receiver

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if it receives notification from the Receiver in conformance with Section 3.12 (Written Statement of Unauthorized Debit), and such notification is received within fifteen calendar days from the date the RDFI sends or makes available to the Receiver information related to the debit Entry in accordance with Subsection 3.1.5 (RDFI Obligation to Provide Information About Entries). An RDFI may not recredit a Receiver's account if doing so is inconsistent with U.S. Legal Requirements, as provided in Subsection 1.2.1 (Effect of Illegality).

***SUBSECTION 3.11.3 RDFI's Recredit Obligation Not Exclusive***

An RDFI's obligation to recredit a Receiver under this Section 3.11 is in addition to any other obligation provided under Regulation E of the Board of Governors of the Federal Reserve System or other applicable Legal Requirements.

***SUBSECTION 3.11.4 Receiver's Waiver of RDFI's Recredit Obligation***

An RDFI shall have no obligation to recredit a Receiver if it has received a waiver signed by the Receiver, and complying with the requirement of this subsection, in sufficient time and in such manner for the RDFI to reasonably act on it, subject to Legal Requirements. Such a waiver with respect to one or more specific debit Entries initiated to the Receiver's account must:

- (a) be in writing in a document entitled "WAIVER WITH RESPECT TO PRE-ARRANGED DEBIT";
- (b) specify the amount of each Entry to which the waiver applies;
- (c) specify the approximate date on which each Entry was initiated by the Originator;
- (d) specify the Originator number designated in each Entry; and
- (e) specifically state in substance that the Receiver waives any right to have a designated RDFI credit the amount of the Entry or Entries to the Receiver's account due to error, unless the error was made by the RDFI.

Except for waivers and exclusions complying with the requirements of this subsection, an RDFI may not act on any other purported waiver of any obligation under these Rules to recredit a Receiver's account for unauthorized debits. If an Originator delivers a waiver, with a copy, to the RDFI, the RDFI must acknowledge receipt on the copy of the waiver and promptly deliver or provide that copy to the Originator if requested by the Originator in writing.

**SECTION 3.12 Written Statement of Unauthorized Debit**

***SUBSECTION 3.12.1 Unauthorized Debit Entry***

For purposes of this Section 3.12, a debit Entry was not authorized by the Receiver if:

- (a) the authorization requirements of Section 2.3 (Authorization and Notice of Entries) were not met;
- (b) the debit Entry was initiated in an amount different than that authorized by the Receiver; or
- (c) the debit Entry was initiated for settlement earlier than authorized by the Receiver.

An unauthorized debit Entry does not include a debit Entry initiated with fraudulent intent by the Receiver or any Person acting in concert with the Receiver.

***SUBSECTION 3.12.2 Improper ARC, BOC, POP and RCK Debit Entries***

For purposes of this Section 3.12, a debit Entry was improper if it was:

- (a) an ARC, BOC or POP Entry for which:
  - (i) the source document used for the Entry was not an Eligible Source Document; or
  - (ii) the Check that was used as a source document for the Entry was paid by the RDFI;
- (b) an ARC or BOC Entry for which:

- (i) notice was not provided by the Originator in accordance with Subsection 2.5.1.2 (Authorization of ARC Entries by Notification) or Subsection 2.5.2.2 (Authorization of BOC Entries by Notification), as applicable; or
- (ii) the amount of the Entry was not accurately obtained from the Eligible Source Document;
- (c) an RCK Entry for which:
  - (i) notice stating the terms of the RCK Entry policy was not provided by the Originator in accordance with Subsection 2.5.13.2 (Authorization of RCK Entries by Notification);
  - (ii) the item to which the RCK Entry relates is not an eligible item;
  - (iii) all signatures on the item to which the RCK Entry relates are not authorized or authentic;
  - (iv) the item to which the RCK Entry relates has been altered;
  - (v) the amount of the RCK Entry was not accurately obtained from the item; or
  - (vi) both the RCK Entry and the item to which the RCK Entry relates have been paid.

► **SUBSECTION 3.12.3 Incomplete Transaction**

*For purposes of this Section 3.12, a transaction is an Incomplete Transaction if it involves a debit Entry authorized by a Receiver for the purpose of funding a corresponding payment to a third-party payee, but the Originator, Third-Party Sender or ODFI of the debit Entry failed to make or complete the corresponding payment to the intended third-party payee. An Incomplete Transaction does not include a partial or erroneous payment made to the intended third-party payee.*

**SUBSECTION 3.12.4 RDFI Must Accept Written Statement of Unauthorized Debit**

An RDFI must accept a Written Statement of Unauthorized Debit from a Receiver with respect to any:

- (a) unauthorized or improper debit Entry to a Consumer Account;
- (b) any unauthorized or improper ARC, BOC, or POP Entry to a non-Consumer Account; and
- (c) any unauthorized IAT Entry.

► (a) *unauthorized or improper debit Entry to a Consumer Account;*

(b) *unauthorized or improper ARC, BOC, or POP Entry to a non-Consumer Account;*

(c) *unauthorized IAT Entry; and*

(d) *Incomplete Transaction to a Consumer Account.*

The Written Statement of Unauthorized Debit must be signed or similarly authenticated by the Receiver, submitted within the time frames provided by these Rules, and otherwise conform to the requirements of this Section 3.12.

The Written Statement of Unauthorized Debit must include the following minimum information for each Entry for which recredit is requested by the Receiver:

- (e) Receiver's printed name and signature;
- (f) Receiver's account number;
- (g) Identity of the party (i.e., the payee) debiting the account, as provided to the Receiver;
- (g) *Identity of the party (i.e., the payee) debiting the account, as provided to the Receiver; and, if different, the name of the intended third-party payee;*

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- (h) Date the Entry was posted to the account;
- (i) Dollar amount of Entry;
- (j) Reason for return;
- (k) Signature date;
- (l) Receiver assertion that the Written Statement of Unauthorized Debit is true and correct; and
- (m) Receiver assertion that the Receiver is an authorized signer or has corporate authority to act on the account.

The Written Statement of Unauthorized Debit must be dated on or after the Settlement Date of the Entry(ies) for which recredit is requested.

More than one unauthorized debit Entry from a single Originator may be documented on a Written Statement of Unauthorized Debit, provided that all of the information detailed above is provided for each debit Entry for which the Receiver is seeking recredit.

***SUBSECTION 3.12.5 Retention of Written Statement of Unauthorized Debit***

An RDFI must retain the original or a reproducible copy of each Written Statement of Unauthorized Debit for at least one year from the Settlement Date of the Extended Return Entry(ies) to which the Written Statement of Unauthorized Debit relates.

***SUBSECTION 3.12.6 Copy of Written Statement of Unauthorized Debit***

An RDFI Transmitting an Extended Return Entry as provided in Section 3.13 (RDFI Right to Transmit Extended Return Entries) must provide to an ODFI a copy of the Written Statement of Unauthorized Debit obtained from the Receiver in accordance with this Section 3.12 within ten Banking Days after receiving a written request from the ODFI, provided that such request is received by the RDFI within one year of the date of the initiation of the Extended Return Entry.

**SECTION 3.13 RDFI Right to Transmit Extended Return Entries**

***SUBSECTION 3.13.1 RDFI May Transmit Extended Return Entries***

An RDFI may Transmit an Extended Return Entry with respect to any debit Entry for which it recredits a Receiver's account in accordance with Section 3.11 (RDFI Obligation to Recredit Receiver), provided that:

- (a) no error was made by the RDFI in the debiting of the original Entry to the Receiver's account, except with respect to a stop payment order; and
- (b) the RDFI Transmits the Extended Return Entry to its ACH Operator by its deposit deadline for the Extended Return Entry 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 Extended Return Entry must comply with the requirements of Appendix Four (Return Entries).

***SUBSECTION 3.13.2 RDFI Warranty for Extended Return Entries***

In addition to the other warranties contained in these Rules, an RDFI Transmitting an Extended Return Entry in accordance with this Section 3.13 warrants to each ODFI, ACH Operator, and Gateway that, prior to initiating the Extended Return Entry, the RDFI obtained from the Receiver a Written Statement of Unauthorized Debit complying with Section 3.12 (Written Statement of Unauthorized Debit). This Subsection 3.13.2 does not apply to Extended Return Entries related to an RDFI's recredit obligation in Subsection 3.11.2.2 (RDFI Obligation to Recredit for ARC, BOC and RCK Entries Regarding Stop Payment Orders).

***SUBSECTION 3.13.3 Indemnity of RDFI for Breach of Extended Return Entries Warranty***

An RDFI shall indemnify every ODFI, ACH Operator, and Gateway from and against any and all claims, demands, losses, liabilities, or



expenses, including attorneys' fees and costs, resulting directly or indirectly from the breach of the warranty contained in Subsection 3.13.2 (RDFI Warranty for Extended Return Entries).

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## ARTICLE FOUR

# Rights and Responsibilities of ACH Operators

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### SECTION 4.1 General Responsibilities of ACH Operators

#### ***SUBSECTION 4.1.1 ACH Operator Must Enter Agreement with National Association***

An ACH Operator that is not a Federal Reserve Bank must execute an agreement annually with the National Association in which the ACH Operator agrees to perform all the functions of an ACH Operator and comply with all the obligations of an ACH Operator described in these Rules.

#### ***SUBSECTION 4.1.2 ACH Operator Must Comply With the Rules***

An ACH Operator must comply with these Rules (except to the extent that the Rules are inconsistent with the policies or practices of the Federal Reserve Banks) and applicable Legal Requirements.

#### ***SUBSECTION 4.1.3 ACH Operator Must Enter Agreements with Participating DFIs***

An ACH Operator must execute agreements with a minimum of twenty independent Participating DFIs (not owned or controlled by the same holding company) that bind them to the ACH Operator's rules and these Rules, provided that an ACH Operator that is a Federal Reserve Bank is not required to bind a Participating DFI to any provision of these Rules that is not incorporated by the Federal Reserve Banks Operating Circular 4 on Automated Clearing House Items.

#### ***SUBSECTION 4.1.4 ACH Operator Must Conduct Risk Management***

An ACH Operator must evaluate the credit-worthiness of, and apply risk control measures to, each of its Participating DFIs.

#### ***SUBSECTION 4.1.5 ACH Operator Must Comply With Federal Reserve Policy on Settlement***

An ACH Operator must comply with the Federal Reserve's Policy Statement on Privately Operated Multilateral Settlement Systems, as applicable.

#### ***SUBSECTION 4.1.6 ACH Operator Must Comply With National Performance Standards***

An ACH Operator must comply with any National ACH Operator Performance Standards of the National Association.

#### ***SUBSECTION 4.1.7 ACH Operator Must Allow Inter-Operator Exchanges***

An ACH Operator must exchange Files and Entries with all other ACH Operators.

### SECTION 4.2 Processing Obligations of ACH Operators

An ACH Operator must promptly process and edit Files and Entries in accordance with these Rules.

#### ***SUBSECTION 4.2.1 Settlement Date***

A Receiving ACH Operator must insert the appropriate Settlement Date.

#### ***SUBSECTION 4.2.2 Return or Rejection***

An ACH Operator must return any Entry that does not meet the acceptance criteria of Appendix Two (Specifications for Data Acceptance by ACH Operators), or reject the entire batch or File containing such Entry.

#### ***SUBSECTION 4.2.3 Timely Delivery***

An ACH Operator must Transmit or otherwise make available Entries to the appropriate ACH Operator or Participating DFI in accordance with agreed upon processing and delivery schedules.

#### ***SUBSECTION 4.2.4 File Repair – Other ACH Operator***

An Originating ACH Operator must remake any File rejected by another ACH Operator in accordance with Subsection 4.2.2 (Return or Rejection).

**SUBSECTION 4.2.5 File Repair – RDFI**

A Receiving ACH Operator must remake any File rejected by an RDFI.

**SUBSECTION 4.2.6 Return and Rejection of TRC Entries or TRX Entries**

An Originating ACH Operator must reject any batch of Entries identified by the TRC or TRX Standard Entry Class Code that is not originated by an ODFI that is a participant in a Check Truncation Program and must promptly notify the ODFI of such action. A Receiving ACH Operator must return any Entry identified by the TRC or TRX Standard Entry Class Code if the RDFI is not a Check Truncation Program participant. An ACH Operator must determine whether an ODFI or RDFI is a participant in a Check Truncation Program solely from the information provided to the ACH Operator by the administrator of each Check Truncation Program.

**SUBSECTION 4.2.7 Debit and Credit Totals**

An ACH Operator must total the debit and credit activity received from and Transmitted to each other ACH Operator and Participating DFI during each Banking Day.

**SUBSECTION 4.2.8 Calculation of Settlement Amounts**

An ACH Operator must calculate the settlement amounts for each Banking Day for all Entries processed under these Rules.

**SECTION 4.3 Reversing Files****SUBSECTION 4.3.1 General Rule for Reversing Files**

An ACH Operator may initiate a Reversing File if it has mistakenly initiated an Erroneous File. A Reversing File must reverse all Entries of an Erroneous File.

**SUBSECTION 4.3.2 Obligation to Initiate Correcting Files Corresponding to Reversing Files**

An ACH Operator initiating a Reversing File to correct an Erroneous File must concurrently Transmit a Correcting File corresponding to the Erroneous File, unless the Erroneous File was a duplicate.

**SUBSECTION 4.3.3 Time Limitations on Initiation of Reversing Files**

An ACH Operator must Transmit each Reversing File and, if applicable, a corresponding Correcting File, within twenty-four hours of the discovery of the duplication or error, and also in time to be Transmitted to the RDFI within five Banking Days after the Settlement Date of the Erroneous File.

**SUBSECTION 4.3.4 Notification by ACH Operator of Reversing Files**

A Receiving ACH Operator initiating a Reversing File must notify each Originating ACH Operator directly concerned of the duplication or error at or prior to the time of initiation of the Reversing File. An Originating ACH Operator initiating a Reversing File must notify each ODFI directly concerned of the duplication or error at or prior to the time of initiation of the Reversing File.

**SUBSECTION 4.3.5 Indemnification for Reversing Files**

An ACH Operator that initiates a Reversing File or Correcting File shall indemnify each Participating DFI and ACH Operator from and against any and all claims, demands, losses, liabilities, and expenses, including attorneys' fees and costs, that result directly or indirectly from the debiting or crediting of any Entry in the Reversing File or corresponding Correcting File to the Receiver's account.

**SECTION 4.4 ACH Operator Not Agent of Participating DFI**

An ACH Operator is not an agent of a Participating DFI. For a credit Entry subject to Article 4A, where the terms of the Entry originated by the ODFI differ from the terms of the Entry received by the RDFI, the ODFI is obligated for the Entry it originated. This section does not affect the liability of an ACH Operator as otherwise provided in these Rules.

**SECTION 4.5 ACH Operator Must Retain Records of Entries**

An ACH Operator must retain a Record of all Entries, Return Entries, and Extended Return Entries received or Transmitted by it for one year from the date the Entry was received or Transmitted. The ACH Operator must provide a printout or other reproduction of the information

relating to a particular Entry if requested to do so by the Participating DFI or other ACH Operator that Transmitted or received the Entry.

## **SECTION 4.6 Requirement to Provide Designated Data to National Association**

### ***SUBSECTION 4.6.1 General Obligation***

An ACH Operator must provide Designated Data to the National Association in accordance with the requirements of this Section 4.6. No ACH Operator is obligated to provide any other data to the National Association.

### ***SUBSECTION 4.6.2 Timing and Method***

An ACH Operator must provide Designated Data to the National Association in accordance with timelines and procedures that are mutually agreed between the ACH Operator and the National Association.

### ***SUBSECTION 4.6.3 Exception to Obligation to Provide Designated Data***

An ACH Operator may suspend, upon one Banking Day's prior written notice, the sharing of Designated Data with the National Association, if the National Association is in material breach of its obligations under Section 6.1 (Use and Disclosure of Designated Data by the National Association), until such time as the National Association cures the breach and implements policies, procedures, and systems as may be necessary to prevent a recurrence of the breach.

## **SECTION 4.7 Automated Accounting Advices**

An ACH Operator may provide ACH accounting information in machine readable format to facilitate the automation of accounting information for Participating DFIs. The ACH Operator provides accounting information in a separate file and in standard record formats with specific field contents as indicated in Appendix Three (ACH Record Format Specifications). For Automated Accounting Advices, the ACH Operator is identified in the ACH Record as the company as well as the ODFI.

## **SECTION 4.8 Optional Services**

An ACH Operator may provide optional services that do not inconvenience or adversely affect the rights of other ACH Operators, or Participating DFIs that do not use optional services.

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# **ARTICLE FIVE**

# **Rights and**

# **Responsibilities of**

# **Gateways for IAT**

# **Entries**

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## **SECTION 5.1 Responsibilities of Gateways**

### ***SUBSECTION 5.1.1 Gateway Must Enter Agreement with ODFI or Gateway's Customer***

A Gateway that Transmits Outbound IAT Entries must have an agreement with either (i) the ODFI of the Outbound IAT Entry; or (ii) a customer of the Gateway that instructs the Gateway to receive Outbound IAT Entries on its behalf for re-Transmission to a foreign country.

### ***SUBSECTION 5.1.2 Gateway Must Comply with U.S. Legal Requirements***

A Gateway must comply with applicable U.S. Legal Requirements, including all requirements administered by the U.S. Department of the Treasury Office of Foreign Assets Control and U.S. Financial Crimes Enforcement Network in effect at any given time.

### ***SUBSECTION 5.1.3 Gateway Must Notify Intended RDFI of Unlawful Inbound Payment Transaction***

Except to the extent prohibited by applicable Legal Requirements, a Gateway must (1) notify the intended RDFI of any Inbound payment transaction that has been blocked and/or rejected by the Gateway because the origination of an Inbound IAT Entry for such transaction would violate U.S. Legal Requirements, and (2) provide the intended RDFI with the following minimum



information from the payment transaction within five banking days of blocking or rejecting the payment transaction:

- the names and complete addresses of all parties to the payment transaction;
- the amount of the payment transaction; and
- the date of the payment transaction.

***SUBSECTION 5.1.4 Gateway Must Obtain Authorization from ODFI or Gateway's Customer***

A Gateway must obtain authorization from either (i) an ODFI or (ii) a customer of the Gateway that instructs the Gateway to receive Outbound IAT Entries on its behalf for re-Transmission to a foreign country to:

- (a) Transmit such ODFI's or customer's Outbound IAT Entries to a Foreign Gateway;
- (b) arrange for settlement of such Entries with the Foreign Gateway; and
- (c) arrange for further Transmission of such Entries to the "foreign RDFI" and settlement of the amount of such Entries to or from the "foreign Receiver's" account.

For purposes of this subsection, the references to the terms "foreign RDFI" and "foreign Receiver" are intended to refer to foreign Persons that perform substantially similar functions as RDFIs and Receivers, respectively, and are not intended to confer any of the rights and responsibilities assigned to RDFIs and Receivers under these Rules.

***SUBSECTION 5.1.5 Gateway Obligation to Transmit Return Entries for Outbound IAT Entries Returned by Foreign Gateway***

A Gateway must Transmit a Return Entry for any Outbound IAT Entry that is returned to it by the Foreign Gateway in accordance with the foreign law or foreign payment system rules by which the Gateway is bound. The Gateway must Transmit such a Return Entry in such a time and manner as to be made available to the ODFI no later than the opening of business on the second Banking Day after the Gateway's receipt of the valid return from the Foreign Gateway.

***SUBSECTION 5.1.6 Gateway Action on Receipt of Notification of Change (NOC) Related to Inbound IAT Entries***

A Gateway must provide any corrected data contained within an NOC related to an Inbound IAT Entry to the Foreign Gateway within two banking days of the Settlement Date of the NOC.

***SUBSECTION 5.1.7 ACH Operator May Not Process Debit Inbound IAT Entries***

An ACH Operator acting as a Gateway must not process debit Inbound IAT Entries, except for Reversing Entries.

**SECTION 5.2 Warranties of Gateway**

***SUBSECTION 5.2.1 Warranties for Outbound IAT Entries***

A Gateway that Transmits an Outbound IAT Entry warrants to the ODFI and each ACH Operator of the Entry that it has edited and processed the Entry in accordance with the requirements of these Rules.

***SUBSECTION 5.2.2 Warranties for Inbound IAT Entries***

A Gateway that Transmits an Inbound IAT Entry warrants to the RDFI and each ACH Operator of the Entry that it has edited and processed the Entry in accordance with these Rules.

**SECTION 5.3 Gateway Assumes Obligations of Other Participants**

A Participating DFI acting as a Gateway assumes the specific responsibilities and warranties of an ODFI set forth in Article Two (Rights and Responsibilities of ODFIs, Their Originators and Third-Party Senders) for each Inbound IAT Entry it processes. Each Participating DFI acting as a Gateway assumes the specific responsibilities and warranties of an RDFI set forth in Article Three (Rights and Responsibilities of RDFIs and Their Receivers) for each Outbound IAT Entry it Transmits.

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## ARTICLE SIX

# Rights and Responsibilities of the National Association

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### **SECTION 6.1 Use and Disclosure of Designated Data by the National Association**

#### ***SUBSECTION 6.1.1 Use of Designated Data***

The National Association may use Designated Data solely for the following purposes:

- (a) to monitor ACH quality and compliance with these Rules, including for correct use of SEC Codes and formats, and for potential Rules violations or related risks to participants in, and users of, the ACH system; or
- (b) in support of an enforcement proceeding in accordance with Appendix Ten (Rules Enforcement) of these Rules.

#### ***SUBSECTION 6.1.2 Prohibited Use of Designated Data***

The National Association must not sell Designated Data or information derived from Designated Data to any third party and must not use Designated Data for any purpose other than as provided in Subsection 6.1.1 (Use of Designated Data).

#### ***SUBSECTION 6.1.3 Disclosure of Designated Data***

The National Association may disclose Designated Data to third parties solely as follows:

- (a) to the ACH Operator from which the Designated Data were obtained;
- (b) to any Participating DFI involved in an Entry to which Designated Data relate;

- (c) to the National Association's Board of Directors, committees, employees, agents, contractors, and Associations in connection with a permitted use under Subsection 6.1.1 (Use of Designated Data), provided that such disclosure is limited to the type, amount, and elements of Designated Data that are necessary for such Person(s) to perform their respective designated functions;
- (d) to the extent otherwise permitted by applicable Legal Requirements, including the Federal Right to Financial Privacy Act and Title V of the Gramm-Leach-Bliley Act, to a financial institution regulatory agency with authority with respect to a Participating DFI to which Designated Data relate;
- (e) as required by Legal Requirements, including subpoena, or other applicable legal process, subject to compliance with the Federal Right to Financial Privacy Act and Title V of the Gramm-Leach-Bliley Act, to the extent applicable; or,
- (f) in an aggregate manner that does not identify any ACH Operator, Originator, Receiver, Third-Party Service Provider, or Participating DFI.

#### ***SUBSECTION 6.1.4 Privacy and Security of Designated Data***

##### ***SUBSECTION 6.1.4.1 National Association Must Adopt Data Security Policies***

The National Association must adopt and implement data security policies and procedures designed to:

- (a) ensure the security and confidentiality of Designated Data that are identifiable to a Participating DFI, Originator, or Receiver;
- (b) protect against any anticipated threats or hazards to the security or integrity of Designated Data;

- (c) protect against unauthorized access to or use of Designated Data that could result in substantial harm to any such Participating DFI, Originator, or Receiver; and
- (d) ensure the proper disposal of Designated Data.

***SUBSECTION 6.1.4.2 National Association Must Comply with Data Breach Policy***

The National Association must comply with the Interim Policy on Data Breach Notification Requirements, and any revision or replacement thereof, to the same extent as an ODFI in possession of Designated Data.

***SUBSECTION 6.1.4.3 National Association Must Comply with Privacy Laws***

The National Association must comply with all applicable Legal Requirements governing the confidentiality and security of Designated Data. To the extent such Legal Requirements require the National Association to respond to or provide notice to Originators or Receivers about a data security or data privacy breach with respect to Designated Data in the control of the National Association, the National Association is solely responsible for providing the response or notice, provided that the National Association coordinates with the affected Participating DFI. The ACH Operators have no responsibility or liability with respect to any data security or data privacy breach related to Designated Data in the control of the National Association.

***SUBSECTION 6.1.5 Other Data***

Nothing in this Section 6.1 affects the National Association's rights or obligations with respect to information or data other than Designated Data it receives in accordance with Section 4.6 (Requirement to Provide Designated Data to National Association).

**SECTION 6.2 Indemnity by National Association of ACH Operators**

The National Association shall indemnify each ACH Operator from and against any and all claims, demands, losses, liabilities, and expenses, including attorneys' fees and costs, that result

directly or indirectly from the breach of the National Association's obligations under Section 6.1 (Use and Disclosure of Designated Data by the National Association).

**SECTION 6.3 Limitation of Liability**

Notwithstanding any other provision of these Rules, no ACH Operator or Participating DFI shall have any liability for the acts or omissions of the National Association, its employees, agents, or contractors with respect to Designated Data.

## ARTICLE SEVEN Settlement

**SECTION 7.1 Maintenance of Reserve Bank Accounts**

A Participating DFI must maintain, or have the use through a correspondent of, an account with a Federal Reserve Bank.

**SECTION 7.2 ACH Operators Establish Settlement Procedures**

An ACH Operator is responsible for establishing the procedures under which Entries are settled and settlement balances are to be adjusted.

**SECTION 7.3 Settlement**

An ACH Operator is responsible for effecting settlement among Participating DFIs for all Entries Transmitted in accordance with these Rules by crediting and debiting the Participating DFIs', or their designated correspondents', accounts with the Federal Reserve Banks. An ACH Operator must effect settlement of Entries in accordance with these Rules, applicable operating circulars of the Federal Reserve Banks, and any other applicable agreements.

**SECTION 7.4 Effect of Settlement**

Settlement of Entries does not preclude a Participating DFI from pursuing any available legal rights or remedies, including any right or

remedy arising out of a Return Entry or Extended Return Entry Transmitted after the time frames established by these Rules.

## **SECTION 7.5 Accountability for Entries**

An RDFI is accountable for the amount of all debit Entries received that are not returned in accordance with these Rules, except as provided for in Section 3.13 (RDFI Right to Transmit Extended Return Entries), regardless of whether the ODFI complies with the provisions of Subsection 2.12.5 (Dishonor of Return Entries). This Section 7.5 does not apply to Outbound IAT Entries, TRC Entries, and TRX Entries.

## **SECTION 7.6 Effect of RDFI Closing on Settlement Date**

If the scheduled Settlement Date of a debit Entry is not a Banking Day for an RDFI but is a day on which the applicable office of the Federal Reserve Bank described in Section 7.1 (Maintenance of Reserve Bank Accounts) is open, settlement will occur on the scheduled Settlement Date, unless the RDFI has previously advised the Federal Reserve Bank that settlement for the Entry should be deferred until the RDFI's next Banking Day. If the RDFI has provided such notice to the Federal Reserve Bank, settlement for the debit Entry will occur on the RDFI's next Banking Day, and the RDFI must pay the float charge assessed by the Federal Reserve Bank.

## **SECTION 7.7 Effect of ODFI Closing on Settlement Date**

If the scheduled Settlement Date for a credit Entry is not a Banking Day for an ODFI but is a day on which the applicable office of the Federal Reserve Bank described in Section 7.1 (Maintenance of Reserve Bank Accounts) is open, settlement will occur on the scheduled Settlement Date.

## **SECTION 7.8 Non-Settled Entries**

### ***SUBSECTION 7.8.1 ACH Operator Must Return Entries Originated to an RDFI that Cannot Settle***

An ACH Operator must create and Transmit to the ODFI a Return Entry complying with the requirements of Appendix Four (Return Entries) for each debit or credit Entry Transmitted to an RDFI

for which the RDFI cannot complete settlement. An ODFI must accept a Return Entry from an ACH Operator relating to a Non-Settled Entry and may not dishonor that Return Entry. The ODFI may not reinitiate a Non-Settled Entry.

### ***SUBSECTION 7.8.2 ACH Operator Must Reverse Entries Received from an ODFI that Cannot Settle***

An ACH Operator must create and Transmit to the RDFI a Reversing Entry complying with the requirements of Appendix Three (ACH Record Format Specifications) for each debit or credit Entry Transmitted to an RDFI for which the ODFI cannot complete settlement. An RDFI must accept a Reversing Entry from an ACH Operator relating to a Non-Settled Entry and may not return that Reversing Entry.

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# ARTICLE EIGHT

## Definitions of Terms Used in These Rules

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### **SECTION 8.1 “Accounts Receivable Entry” or “ARC Entry” or “ARC”**

a Single Entry debit initiated by an Originator to the account of a Receiver based on an Eligible Source Document provided to the Originator by the Receiver (1) via U.S. mail or delivery service, (2) at a dropbox location, or (3) in person for payment of a bill at a manned location.

### **SECTION 8.2 “Acknowledgment Entry” or “ACK Entry” or “ACK;” or “ATX Entry” or “ATX”**

a Non-Monetary Entry initiated by an RDFI that provides an acknowledgment of receipt by the RDFI of a corporate credit payment originated using the CCD format (“ACK Entry”) or the CTX format (“ATX Entry”). ACK and ATX Entries must comply with the requirements of Appendix Six (Acknowledgment Entries).

**SECTION 8.3 “Addenda Record”**

a Record that contains supplemental data related to an Entry.

**SECTION 8.4 “Article 4A”**

Article 4A of the Uniform Commercial Code as enacted in the State of New York.

**SECTION 8.5 “Association”**

a Payment Association, as that term is defined from time to time in the bylaws of NACHA.

**SECTION 8.6 “Automated Accounting Advice Entry” or “ADV Entry” or “ADV”**

a Non-Monetary Entry that is used by an ACH Operator to provide accounting information regarding an Entry to Participating DFIs in machine readable format.

**SECTION 8.7 “Automated Clearing House” or “ACH”**

an Electronic funds transfer system governed by these Rules.

**SECTION 8.8 “Automated Clearing House Operator” or “ACH Operator”**

an entity that acts as a central facility for the clearing, delivery, and settlement of Entries between or among Participating DFIs.

**SECTION 8.9 “Automated Enrollment Entry” or “ENR Entry” or “ENR”**

a Non-Monetary Entry initiated by a Participating DFI to an agency of the Federal Government of the United States on behalf, and at the request, of an account holder at the Participating DFI to enroll in a service that will enable Entries to such Person’s account at the Participating DFI.

**SECTION 8.10 “Auxiliary On-Us Field”**

an optional, variable format field of the MICR line of a Check of sufficient length. It is positioned to the left of the routing number (or the external processing code, when such a code is present). Data located within the Auxiliary On-Us Field is bracketed by on-us symbols.

**SECTION 8.11 “Back Office Conversion Entry” or “BOC Entry” or “BOC”**

a Single Entry debit initiated by an Originator to an account of a Receiver based on an Eligible Source Document provided to the Originator by the Receiver at the point of purchase or at a manned bill payment location for subsequent conversion during back-office processing.

**SECTION 8.12 “Banking Day”**

with reference to a Participating DFI, any day on which such Participating DFI is open to the public during any part of such day for carrying on substantially all of its banking functions, and, with reference to an ACH Operator, any day on which the applicable facility of such ACH Operator is being operated.

**SECTION 8.13 “Business Day”**

a calendar day other than a Saturday, Sunday, or a Federal holiday in the United States.

**SECTION 8.14 “Check”**

a “check” as that term is defined in Article 3 of the Uniform Commercial Code and includes share drafts.

**SECTION 8.15 “Check Serial Number”**

the serial number of a Check.

**SECTION 8.16 “Check Truncation Entry” or “TRC Entry” or “TRC;” or “TRX Entry” or “TRX”**

a debit Entry initiated under a Check Truncation Program. A TRC Entry is for the Truncation of a single Check drawn on the paying bank. A TRX Entry is for the Truncation of multiple Checks drawn on the same paying bank. A TRX Entry may contain up to 9,999 Addenda Records.

**SECTION 8.17 “Check Truncation Program”**

a program for the truncation of Checks based on an agreement among two or more Participating DFIs.



**SECTION 8.18 “Consumer Account”**

an account held by a Participating DFI and established by a natural person primarily for personal, family or household use and not for commercial purposes.

**SECTION 8.19 “Corporate Credit or Debit Entry” or “CCD Entry” or “CCD”**

a credit Entry, a debit Entry, or a Non-Monetary Entry originated by an Organization to or from the account of that Organization or another Organization.

**SECTION 8.20 “Corporate Trade Exchange Entry” or “CTX Entry” or “CTX”**

a credit Entry, debit Entry or Non-Monetary Entry originated by an Organization to or from the account of that Organization or another Organization and accompanied by one or more Addenda Records, up to a maximum of 9,999.

**SECTION 8.21 “Correcting File”**

a File that corrects the Entries contained in an Erroneous File.

**SECTION 8.22 “Customer Initiated Entry” or “CIE Entry” or “CIE”**

a credit Entry initiated by or on behalf of the holder of a Consumer Account to the account of a Receiver.

**SECTION 8.23 “Death Notification Entry” or “DNE Entry” or “DNE”**

a Non-Monetary Entry that gives notice by an agency of the United States Government to an RDFI of the death of a Receiver.

**SECTION 8.24 “Designated Data”**

the following data regarding Entries, excluding CIE Entries, processed by an ACH Operator, to the extent such ACH Operator agrees to provide such data to the National Association from time to time: (a) data derived from Return Entries or Extended Return Entries, (b) aggregate information from forward Entries that does not permit identification

of the Receiver; and (c) data requested by NACHA to investigate and respond to a specific incident involving potential violation of these Rules or risk to Participating DFIs, Originators, or Receivers. The term “Designated Data” does not include the Participating DFI account number, individual name, and individual identification number fields of Entry detail Records.

**SECTION 8.25 “Destroyed Check Entry” or “XCK Entry” or “XCK”**

a debit Entry initiated with respect to an item described in Subsection 2.5.18.2 (XCK Eligible Items).

**SECTION 8.26 “Direct Access”**

a situation in which an Originator, Third-Party Sender, or a Third-Party Service Provider Transmits credit or debit Entries directly to an ACH Operator using an ODFI’s routing number and settlement account.

**SECTION 8.27 “Direct Access Debit Participant”**

an Originator, Third-Party Sender, or Third-Party Service Provider with Direct Access for the origination of debit Entries except: (a) a Third-Party Service Provider that Transmits Files solely on behalf of an ODFI where that Third-Party Service Provider does not have a direct agreement with an Originator (and is not itself an Originator), or (b) an ODFI that Transmits Files using another Participating DFI’s routing number and settlement account.

**SECTION 8.28 “Direct Financial Institution”**

a Direct Financial Institution, as that term is defined from time to time in the bylaws of NACHA.

**SECTION 8.29 “Electronic”**

relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities.

**SECTION 8.30 “Electronic Record”**

an agreement, authorization, Written Statement of Unauthorized Debit, or other Record created,

generated, Transmitted, communicated, received, or stored by Electronic means.

### SECTION 8.31 “Electronic Signature”

an Electronic sound, symbol, or process attached to or logically associated with an agreement, authorization, Written Statement of Unauthorized Debit, or other Record and executed or adopted by a Person with the intent to sign the Record.

### SECTION 8.32 “Eligible Source Document”

a Check that is used as a source of information for ARC, BOC or POP Entries. To be used as a source of information, the Check must:

- (a) contain a pre-printed Check serial number;
- (b) be in an amount of \$25,000 or less;
- (c) be completed and signed by the Receiver (except for POP Entries); and
- (d) have a routing number, account number and Check serial number encoded in magnetic ink.

An Eligible Source Document does not include:

- (e) a Check that contains an Auxiliary On-Us Field in the MICR line;
- (f) a Check payable to a Person other than the Originator;
- (g) a draft that does not contain the signature of the Receiver, including any “remotely created check,” as that term is defined by Regulation CC;
- (h) a Check provided by a lender for purposes of accessing a credit card account, home equity line or other form of credit;
- (i) a Check drawn on an investment company as that term is defined in the Investment Company Act of 1940;
- (j) an obligation of a financial institution (e.g., a travelers check, cashier’s check, official check, money order, etc.);

(k) a Check drawn on the Treasury of the United States, a Federal Reserve Bank, or a Federal Home Loan Bank;

(l) a Check drawn on a state or local government that is not payable through or at a Participating DFI; or

(m) a Check payable in a medium other than United States currency.

### SECTION 8.33 “Entry”

(a) an order or request for the transfer of money to the deposit account or loan account of a Receiver, or general ledger account of an RDFI (a “credit Entry”);

(b) an order or request for the withdrawal of money from the deposit account of a Receiver, or general ledger account of an RDFI (a “debit Entry”); and

(c) a Non-Monetary Entry to the deposit account or loan account of a Receiver, or general ledger account of an RDFI.

An Entry must comply with the requirements of Appendix Three (ACH Record Format Specifications), Appendix Four (Return Entries), Appendix Five (Notification of Change), or Appendix Six (Acknowledgement Entries), as applicable. For all Entries except RCK Entries, each debit Entry shall be deemed an “item” within the meaning of Revised Article 4 of the Uniform Commercial Code (1990 Official Text) and that Article shall apply to such Entries except where the application is inconsistent with these Rules, in which case these Rules shall control. An RCK Entry is an item as that term is defined by Revised Article 4 of the Uniform Commercial Code only for the limited purposes of presentment as set forth in Article 4-110(c) and notice of dishonor as set forth in Article 4-301(a)(2).

### SECTION 8.34 “Erroneous Entry”

an Entry that (a) is a duplicate of an Entry previously initiated by the Originator or ODFI; (b) orders payment to or from a Receiver different than the Receiver intended to be credited or debited by the Originator; or (c) orders payment in a dollar amount different than was intended by the Originator.



**SECTION 8.35 “Erroneous File”**

a File that is a duplicate of a previously submitted File, or a File in which each Entry, or each Entry in one or more batches contained in such File, is an Erroneous Entry.

**SECTION 8.36 “Existing Relationship”**

any point in time that: (a) a written agreement between an Originator and a Receiver is in effect; or (b) the Receiver has purchased goods or services from the Originator within the two-year period immediately preceding such point in time.

**SECTION 8.37 “Extended Return Entry”**

an Entry initiated by an RDFI in accordance with Section 3.13 (RDFI Right to Transmit Extended Return Entries) that returns a previously originated debit Entry to an ODFI. An Extended Return Entry must comply with the requirements of Appendix Four (Return Entries).

**SECTION 8.38 “File”**

a group of Entries associated with a given transmittal register and the control totals set forth therein.

**SECTION 8.39 “Financial Agency”**

an entity that is authorized by applicable Legal Requirements to accept deposits or to conduct the business of issuing money orders or transferring funds.

**SECTION 8.40 “Foreign Correspondent Bank”**

a financial institution or Financial Agency located in a country other than the United States that holds deposits owned by other financial institutions and provides payment and other services to those other financial institutions.

**SECTION 8.41 “Foreign Gateway”**

an entity that performs outside of the United States functions substantially similar to those of a Gateway by acting as an entry point to or exit

point from a country other than the United States for payment transactions. Also known as a “Foreign Gateway Operator” or “FGO.”

**SECTION 8.42 “Gateway”**

an ACH Operator or a Participating DFI that acts as an entry point to or exit point from the United States for ACH payment transactions. Also known as a “Gateway Operator” or “GO.”

**SECTION 8.43 “Herein”, “Hereinafter”, “Hereof” or any other similar term**

whether capitalized or not, as used in these Rules refer to the entire Rules and not to any particular section or subsection of these Rules.

**SECTION 8.44 “Inbound IAT Entry”**

an IAT Entry that originates in a country other than the United States and is Transmitted to the United States.

**SECTION 8.45 “Include”, “Including” and other derivatives of those terms**

whether capitalized or not, as used in these Rules will be interpreted as being followed by the words “without limitation.”

**► SECTION 8.46 “Incomplete Transaction”**

*a payment to an intended third-party payee that was not made or completed by the Originator, Third-Party Sender or ODFI of a corresponding debit Entry authorized by a Receiver for the purpose of funding the payment to the third-party payee. A partial or erroneous payment to the intended third-party payee is not an Incomplete Transaction.*

**SECTION 8.47 “International ACH Transaction” or “IAT Entry” or “IAT”**

an Entry that is part of a payment transaction<sup>1</sup> involving a Financial Agency’s office that is not located in the territorial jurisdiction of the United States. An office of a Financial Agency is involved in the payment transaction if it (a) holds an account

<sup>1</sup> See the NACHA Operating Guidelines chapter on International ACH Transactions for further guidance on payment transactions.

that is credited or debited as part of the payment transaction, (b) receives payment directly from a Person or makes payment directly to a Person as part of the payment transaction, or (c) serves as an intermediary in the settlement of any part of the payment transaction.

#### **SECTION 8.48 “Internet-Initiated/Mobile Entry” or “WEB Entry” or “WEB”**

a debit Entry initiated by an Originator to a Consumer Account of the Receiver based on (1) an authorization that is communicated, other than by an oral communication, from the Receiver to the Originator via the Internet or a Wireless Network, or (2) any form of authorization if the Receiver’s instruction for the initiation of the individual debit Entry is designed by the Originator to be communicated, other than by an oral communication, to the Originator via a Wireless Network.

#### **SECTION 8.49 “Legal Requirements”**

any law, statute, rule or regulation, or any binding published interpretation of any of the foregoing, issued by any government authority (including courts), and any judicial, governmental, or administrative order, judgment, decree or ruling, in each case as applicable to the subject matter and the parties at issue, and as amended, supplemented, modified or replaced from time to time.

#### **SECTION 8.50 “Machine Transfer Entry” or “MTE Entry” or “MTE”**

a credit or debit Entry initiated at an “electronic terminal,” as that term is defined in Regulation E, to a Consumer Account maintained with an RDFI, i.e., an ATM cash deposit or withdrawal.

#### **SECTION 8.51 “MICR”**

a magnetic ink character recognition technology adopted to facilitate the processing of Checks.

#### **SECTION 8.52 “National Association” or “NACHA”**

the National Automated Clearing House Association.

#### **SECTION 8.53 “Non-Monetary Entry”**

any notice or data complying with the requirements of Appendix Three (ACH Record Format Specifications) that is not an order or request for the transfer or withdrawal of funds.

#### **SECTION 8.54 “Non-Settled Entry”**

a credit or debit Entry for which settlement cannot be completed.

#### **SECTION 8.55 “Notification of Change” or “NOC” or “COR Entry” or “COR”**

a Non-Monetary Entry Transmitted by an RDFI for the purpose of identifying incorrect information contained within an Entry and providing correct data to be used on future Entries. An NOC is also known by the SEC Code “COR.” The SEC Code “COR” is also used by the ODFI to create a refused Notification of Change to refuse an NOC Entry containing incorrect or incomplete information. An NOC or refused NOC must comply with the requirements of Appendix Five (Notification of Change).

#### **SECTION 8.56 “Organization”**

a corporation, partnership, association or other entity, governmental or private, or a natural person, provided that, in the case of a natural person, any account of such natural person to be debited or credited in respect of an Entry is maintained primarily for commercial and not for personal, family or household purposes.

#### **SECTION 8.57 “Originating Automated Clearing House Operator” or “Originating ACH Operator”**

an ACH Operator that receives Entries from an ODFI with which it has an agreement. In the event Entries are Transmitted between an ODFI and an RDFI through a single ACH Operator, the term refers to that ACH Operator.

#### **SECTION 8.58 “Originating Depository Financial Institution” or “ODFI”**

a Participating Depository Financial Institution with respect to Entries (a) it Transmits directly or indirectly to an ACH Operator for Transmittal

to an RDFI, and (b) on which it is designated as the ODFI in accordance with Appendix Three (ACH Record Format Specifications). An RDFI is not considered an ODFI solely by reason of its initiation of Acknowledgment Entries, Return Entries, Extended Return Entries, or Notifications of Change.

#### **SECTION 8.59 “Origination Agreement”**

a written agreement between an ODFI and an Originator or Third-Party Sender (on behalf of an Originator with which the Third-Party Sender has an agreement) that authorizes the ODFI to Transmit Entries to a Receiver’s account and that meets all other applicable requirements set forth in Subsection 2.2.1.1 (ODFI Must Enter Origination Agreement with Originator) and/or Subsection 2.2.1.2 (ODFI Must Enter Origination Agreement with Third-Party Sender).

#### **SECTION 8.60 “Originator”**

a Person that has authorized an ODFI (directly or through a Third Party Sender) to Transmit, for the account of that Person, a credit Entry, debit Entry, or Non-Monetary Entry to the Receiver’s account at the RDFI.

#### **SECTION 8.61 “Outbound IAT Entry”**

an IAT Entry that originates in the United States and is Transmitted to another country.

#### **SECTION 8.62 “Participating Depository Financial Institution” or “Participating DFI”**

a financial institution that (a) is authorized by applicable Legal Requirements to accept deposits, (b) has been assigned a routing number by Accuity, and (c) has agreed to be bound by these Rules.

#### **SECTION 8.63 “Person”**

a natural person or an Organization.

#### **SECTION 8.64 “Point-of-Purchase Entry” or “POP Entry” or “POP”**

a Single Entry debit initiated by an Originator to an account of the Receiver based on an Eligible

Source Document provided to the Originator by the Receiver at the point-of-purchase or manned bill payment location.

#### **SECTION 8.65 “Point of Sale Entry” or “POS Entry” or “POS”**

a debit Entry initiated at an “electronic terminal,” as that term is defined in Regulation E, to a Consumer Account of the Receiver to pay an obligation incurred in a point-of-sale transaction, or to effect a point-of-sale terminal cash withdrawal. Also an adjusting or other credit Entry related to such debit Entry, transfer of funds, or obligation.

#### **SECTION 8.66 “Prearranged Payment and Deposit Entry” or “PPD Entry” or “PPD”**

a credit or debit Entry initiated by an Organization to a Consumer Account of a Receiver based on a standing or a Single Entry authorization from the Receiver.

#### **SECTION 8.67 “Prenotification Entry” or “Prenotification” or “Prenote”**

a Non-Monetary Entry initiated by an Originator to an RDFI prior to the initiation of the first credit or debit Entry to a Receiver’s account with the RDFI. A Prenotification notifies the RDFI that the Originator intends to initiate one or more credit or debit Entries to a Receiver’s account with that RDFI in accordance with the Receiver’s authorization.

#### **SECTION 8.68 “Re-presented Check Entry” or “RCK Entry” or “RCK”**

a Single Entry debit constituting a presentment notice of an item eligible under Subsection 2.5.13.3 (RCK Eligible Items). An RCK Entry is an item as that term is defined by Revised Article 4 of the Uniform Commercial Code (1990 Official Text) only for the limited purposes of presentment as set forth in Article 4-110(c) and notice of dishonor as set forth in Article 4-301(a)(2).

#### **SECTION 8.69 “Receiver”**

a Person that has authorized an Originator to initiate a credit Entry, debit Entry, or Non-Monetary Entry to the Receiver’s account at the RDFI. With respect to debit Entries, the term “Receiver”

means all Persons whose signatures are required to withdraw funds from an account for purposes of the warranty provisions of Subsection 2.4.1 (General ODFI Warranties).

### **SECTION 8.70 “Receiving Automated Clearing House Operator” or “Receiving ACH Operator”**

an ACH Operator that distributes Entries to an RDFI with which it has an agreement. In the event Entries are Transmitted between an ODFI and an RDFI through a single ACH Operator, the term refers to that ACH Operator.

### **SECTION 8.71 “Receiving Depository Financial Institution” or “RDFI”**

a Participating Depository Financial Institution with respect to Entries (a) it receives from its ACH Operator to the accounts of Receivers, and (b) on which it is designated as the RDFI in accordance with Appendix Two (ACH Record Format Specifications). An ODFI is not considered an RDFI solely by reason of its receipt of Acknowledgement Entries, Return Entries, Extended Return Entries, or Notifications of Change.

### **SECTION 8.72 “Receiving Point”**

an Organization that receives Entries from an ACH Operator on behalf of an RDFI. A Receiving Point may be an RDFI acting on its own behalf, or a Participating DFI or Third-Party Service Provider acting on behalf of one or more RDFIs.

### **SECTION 8.73 “Reclamation Entry”**

a debit Entry initiated by an Originator to reclaim from an RDFI any amounts received by a Recipient after death or legal incapacity or the death of a beneficiary of the Recipient.

### **SECTION 8.74 “Record”**

information that is inscribed on a tangible medium or that is stored in an Electronic or other medium and is retrievable in perceivable form.

### **SECTION 8.75 “Regulation CC”**

the regulations adopted by the Board of Governors of the Federal Reserve System at 12 C.F.R. Part 229 from time to time to implement the Expedited

Funds Availability Act (12 U.S.C §§ 4001-4010) and the Check Clearing for the 21<sup>st</sup> Century Act (12 U.S.C §§ 5001-5018).

### **SECTION 8.76 “Regulation D”**

the regulations adopted by the Board of Governors of the Federal Reserve System at 12 C.F.R. Part 204 from time to time to implement certain sections of the Federal Reserve Act, including Section 19 thereof, (12 U.S.C. § 3105 *et seq.*) and Section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105 *et seq.*).

### **SECTION 8.77 “Regulation E”**

the regulations adopted by the Board of Governors of the Federal Reserve System at 12 C.F.R. Part 205 from time to time to implement the Electronic Fund Transfer Act (15 U.S.C. §§ 1693 *et seq.*).

### **SECTION 8.78 “Reject”**

the return of a failed Entry or Return Entry by an ACH Operator to another ACH Operator, an ODFI (or its Transmitting Point), or an RDFI (or its Receiving Point).

### **SECTION 8.79 “Return Entry” or “Return”**

a credit or debit Entry initiated by an RDFI or ACH Operator, that returns a previously originated credit or debit Entry, to the ODFI within the time frames established by these Rules. A Return Entry must comply with the requirements of Appendix Four (Return Entries). For all Entries except IAT Entries, an ODFI may dishonor a Return Entry. A dishonored Return Entry must comply with Subsection 2.12.5 (Dishonor of Return Entries) and Appendix Four (Return Entries). For all Entries except IAT Entries, an RDFI may create a corrected or contested dishonored Return Entry in compliance with Subsection 3.8.5 (Receipt of Dishonored Returns) and Appendix Four (Return Entries).

### **SECTION 8.80 “Return Fee”**

A fee charged by an Originator to a Receiver for a debit Entry or other item that was returned for insufficient or uncollected funds, to the extent permitted by applicable Legal Requirements.



**SECTION 8.81 “Return Fee Entry”**

A Single Entry initiated by an Originator to the account of a Receiver to collect a Return Fee.

**SECTION 8.82 “Reversing Entry” or “Reversal”**

a credit or debit Entry that reverses an Erroneous Entry.

**SECTION 8.83 “Reversing File”**

a File that reverses all Entries in an Erroneous File.

**SECTION 8.84 “Rules” or “NACHA Operating Rules” or “NACHA Rules” or “ACH Rules”**

the Operating Rules of the National Automated Clearing House Association, including all appendices, formal rules interpretations, and schedule of fees, as in effect from time to time.

**SECTION 8.85 “Sending Point”**

an Organization that Transmits Entries to an ACH Operator on behalf of an ODFI. A Sending Point may be an ODFI acting on its own behalf, or a Participating DFI or Third-Party Service Provider acting on behalf of one or more ODIs.

**SECTION 8.86 “Settlement Date”**

with respect to a credit or debit Entry, the date an exchange of funds with respect to an Entry is reflected on the books of the applicable Federal Reserve Bank(s), and with respect to a Non-Monetary Entry, the date specified in the “Settlement Date” field of the Entry.

**SECTION 8.87 “Shared Network Entry” or “SHR Entry” or “SHR”**

a debit Entry initiated at an “electronic terminal,” as that term is defined in Regulation E, to a Consumer Account of the Receiver to pay an obligation incurred in a point-of-sale transaction, or to effect a point-of-sale terminal cash withdrawal. Also an adjusting or other credit Entry related to such debit Entry, transfer of funds, or obligation. SHR Entries are initiated in a shared network where the ODFI and RDFI have an agreement in addition to these Rules to process such Entries.

**SECTION 8.88 “Single Entry”**

a credit or debit Entry initiated by an Originator in accordance with the Receiver’s authorization for a one-time transfer of funds to or from the Receiver’s account.

**SECTION 8.89 “Standard Entry Class Code” or “SEC Code”**

a three-character code that identifies the type of Entry.

**SECTION 8.90 “Telephone-Initiated Entry” or “TEL Entry” or “TEL”**

a debit Entry initiated by an Originator to a Consumer Account of the Receiver based on an oral authorization obtained over the telephone.

**SECTION 8.91 “Third-Party Sender”**

an Organization that is not an Originator that has authorized an ODFI or a Third Party Service Provider to Transmit, for its account or the account of another Third-Party Sender, a credit Entry, debit Entry, or Non-Monetary Entry to the Receiver’s account at the RDFI. An Organization acting as Third-Party Sender also is a Third-Party Service Provider.

**SECTION 8.92 “Third-Party Service Provider”**

an Organization that performs any functions on behalf of the Originator, the ODFI, or the RDFI (not including the Originator, ODFI or RDFI acting in such capacity for such Entries) related to the processing of Entries, including the creation of the Files or acting as a Sending Point or Receiving Point on behalf of a Participating DFI. An Organization acting as Third-Party Sender also is a Third-Party Service Provider.

**SECTION 8.93 “Transaction Account”**

a “transaction account” as that term is defined in Regulation D.

**SECTION 8.94 “Transmit”**

to send by Electronic means of communication.

**SECTION 8.95 “Truncation”**

a process whereby Checks are presented by Transmission of information describing the Check rather than by the delivery of the Check itself.

**SECTION 8.96 “Uniform Commercial Code” or “UCC”**

the Uniform Commercial Code as enacted in the State of New York, unless otherwise provided.

**SECTION 8.97 “Unsecured Electronic Network”**

a network, public or private, that (1) is not located entirely within a single, contiguous, physical facility, and (2) either (a) Transmits data via circuits that are not dedicated to communication between two end-points for the duration of the communication, or (b) Transmits data via wireless technology (excluding a communication that begins and ends with a wireline connection, but that is routed by a telecommunications provider for a portion of the connection over a wireless system). For clarity, the Internet is an Unsecured Electronic Network, even though secure transmissions may be made over that otherwise unsecure network.

**SECTION 8.98 “Wireless Network”**

an Unsecured Electronic Network for the communication of data using wireless technology.

**SECTION 8.99 “Written Statement of Unauthorized Debit”**

a written notice submitted by a Receiver to an RDFI requesting recredit to the Receiver’s account with the RDFI for debit to the Receiver’s account that was not authorized by the Receiver or was improper, as provided in Section 3.12 (Written Statement of Unauthorized Debit).

- *a written notice submitted to an RDFI by a Receiver requesting recredit to the Receiver’s account with the RDFI for a debit to the Receiver’s account that was not authorized by the Receiver, was improper, or was part of an Incomplete Transaction, as provided in Section 3.12 (Written Statement of Unauthorized Debit).*

► *Approved April 2, 2012, Effective March 15, 2013*



# APPENDIX ONE

## ACH File Exchange Specifications

The following information outlines the requirements for processing Electronic transmissions, addresses the sequence of Records in an ACH File, and gives a descriptive overview of the various records contained in a File.

### PART 1.1 Electronic Transmission Requirements

A Participating DFI and its ACH Operator need to address operating details (testing, implementation and contingency plans) to ensure compatibility in Electronic File Transmission.

### PART 1.2 Data Specifications for ACH Records

The following table shows the data specifications for ACH Records.

TYPE OF FIELD	ALPHABETIC/ ALPHAMERIC	NUMERIC
<b>Valid Characters</b>	0-9, A-Z, a-z, space, EBCDIC values greater than hexadecimal "3F", ASCII values greater than hexadecimal "1F"	0-9
<b>Justification</b>	Left	Right
<b>Empty Field Handling</b>	Space filled	Zero filled
<b>Special Notes</b>	Certain fields require the use of UPPER CASE characters – see below.	Must be unsigned (Neither positive (+) or negative (–) signage.)

UPPER CASE characters must be used for all of the following:

- all alphabetic characters within the Standard Entry Class Code field;
- all alphabetic characters within the File ID Modifier field;

- all alphabetic characters within the Change Code and Refused COR Code fields;
- all alphabetic characters within the Return Reason Code, Dishonored Return Reason Code, and Contested Dishonored Return Reason Code fields;
- Company Entry Description fields containing the words "REVERSAL," "RETURN FEE," "RECLAIM," "NONSETTLED," "AUTOENROLL" (for ENR entries), "REDEPCHECK" (for RCK entries), and "NO CHECK" (for XCK entries); and
- Company Name fields containing the words "CHECK DESTROYED" (for XCK entries).

### PART 1.3 Sequence of Records in ACH Files

Each ACH File begins with a File Header Record. After the File Header Record may be any number of batches. Each batch is identified by a Company/Batch Header Record and contains one or more Entry Detail Records. The number of addenda records that accompany each Entry is dependent upon the Standard Entry Class Code. At the end of each batch is a Company/Batch Control Record. Each File ends with a File Control Record.

The records in ACH files must be in the following sequence:

File Header Record

Batch #1

Company/Batch Header Record

Entry Detail Records or Corporate Entry Detail Records (with/without optional Addenda Records)

Company/Batch Control Record

Batch #2

Company/Batch Header Record

Entry Detail Records or Corporate Entry Detail Records (with/without optional Addenda Records)

Company/Batch Control Record

Batch #n

Company/Batch Header Record

Entry Detail Records or Corporate Entry  
Detail Records (with/without optional  
Addenda Records)

Company/Batch Control Record

File Control Record

Any other sequence will cause the File to be rejected (see diagrams on the following pages).

## PART 1.4 File Structure

### ***File Header Record***

The File Header Record designates File characteristics and identifies the immediate origin (Sending Point or ACH Operator) and destination (Receiving Point or ACH Operator) of the Entries contained within the File or within the Transmitted batched data. In addition, this Record includes date, time, and File identification fields, which can be used to identify the File uniquely.

### ***Company/Batch Header Record***

The Company/Batch Header Record identifies the Originator and briefly describes the purpose of the Entry. For example, “Gas Bill” or “REG SALARY” indicates the reason for the transaction originated by the Originator. The Company/Batch Header Record contains the routing number of the ODFI for settlement, routing of Returns, and other control purposes. In addition, the Company/Batch Header Record indicates the intended Effective Entry Date of all transactions within the batch. The information contained in the Company/Batch Header Record applies uniformly to all subsequent Entry Detail Records in the batch.

### ***Entry Detail Record/Corporate Entry Detail Record***

Entry Detail Records contain that information sufficient to relate the Entry to the Receiver, i.e., Receiver’s account number at the RDFI, identification number, name, amount, and debit or credit, as indicated by the Transaction Code.

The information in the Company/Batch Header Record must be incorporated with the Entry Detail Record to fully describe the Entry and all

participants in the transaction. The information in the Company/Batch Header Record identifies the Originator; the Trace Number identifies the ODFI; DFI routing and account information identifies both the RDFI and the specific account. In addition to the basic Entry format, Transaction Codes for Entry Detail Records have been defined to accommodate Prenotification records, zero dollar CCD, CTX, and IAT Entries, and Return Entries.

Prenotifications are identical to the basic Entry format but contain appropriate Transaction Codes and zeros in the Amount field. Prenotifications can be batched with other dollar entries or batched separately.

Zero dollar CCD, CTX, and IAT Entries are identical to the basic Entry format but contain appropriate Transaction Codes and zeros in the Amount field. Zero dollar CCD, CTX, and IAT Entries can be batched with other CCD, CTX, and IAT dollar Entries or batched separately. A zero dollar CCD, CTX Entry must be accompanied by at least one Addenda Record. A zero dollar IAT Entry must be accompanied by at least the seven mandatory Addenda Records.

Return Entries are distinguished by special Transaction Codes and must be batched separately from other dollar entries.

### ***Addenda Records***

Originators can use Addenda Records to supply additional information about Entry Detail Records that will pass from the ODFI through the ACH Operator to the RDFI. Addenda Records associated with the original Entry Detail Record or Corporate Entry Detail Record are not included with any Entry Detail Record being returned, with the exception of IAT Entries. Only NACHA sanctioned formats are permitted, as specified by the Addenda Type Code. Addenda Record information may only be used for the purpose of Transmitting payment related information. Any other use is prohibited. Each application, with its corresponding number of addenda records, is listed in the chart on the following page.

SEC CODE	CONTENTS	REFERENCE	MAXIMUM NUMBER ADDENDA RECORDS	OPTIONAL/ MANDATORY
ACK	ANSI ASC X12 REF (Reference) data segment	Appendix Six, Subpart 6.4.2; Appendix Three, Subpart 3.2.2	1	Optional
ADV	N/A	N/A	0	N/A
ARC	N/A	N/A	0	N/A
ATX	ANSI ASC X12 REF (Reference) data segment	Appendix Six, Subpart 6.4.3; Appendix Three, Subpart 3.2.2	1	Optional
BOC	N/A	N/A	0	N/A
CCD, PPD	Payment Related ANSI ASC X12 data segments, NACHA endorsed banking convention	Appendix Three, Subpart 3.1.8, Subpart 3.1.17, and Subpart 3.2.2	1	Optional
CIE	Payment Related ANSI ASC X12 data segments	Appendix Three, Subpart 3.1.9 and Subpart 3.2.2	1	Optional
COR/Refused COR (Notification of Change)	Corrected Data	Appendix Five, Part 5.4; Appendix Three, Subpart 3.2.2	1	Mandatory
CTX	ANSI ASC X12.5 or X12.6 syntax, an ASC X12 transaction set containing a BPR or BPS data segment, or payment related UN/EDIFACT syntax	Appendix Three, Subpart 3.1.10 and Subpart 3.2.2	9,999	Optional
DNE	NACHA endorsed banking convention	Appendix Three, Subpart 3.1.11 and Subpart 3.2.2	1	Mandatory
ENR	NACHA endorsed banking convention	Appendix Three, Subpart 3.1.12 and Subpart 3.2.2	9,999	Mandatory
IAT	Parties to the transaction; payment related remittance information	Appendix Three, Subpart 3.1.13 and Subpart 3.2.2	12	Mandatory (7) Optional (5)
POP	N/A	N/A	0	N/A
POS, SHR, MTE	Terminal and card transaction information	Appendix Three, Subpart 3.1.16, Subpart 3.1.14, Subpart 3.1.19, and Subpart 3.2.2	1	Mandatory
RCK	N/A	N/A	0	N/A
Returns, Dishonored Returns, Contested Dishonored Returns	Return entry data	Appendix Four, Part 4.3, Part 4.4, Part 4.5; Appendix Three, Subpart 3.2.2	1	Mandatory
TEL	N/A	N/A	0	N/A
TRC	N/A	N/A	0	N/A
TRX	National Association for Check Safekeeping syntax	Appendix Three, Subpart 3.1.22 and Subpart 3.2.2	9,999	Mandatory
WEB	Payment related ANSI ASC X12 data segments, NACHA endorsed banking convention	Appendix Three, Subpart 3.1.23 and Subpart 3.2.2	1	Optional
XCK	N/A	N/A	0	N/A

***Company/Batch Control Record***

The Company/Batch Control Record contains the counts, hash totals, and total dollar controls for the preceding Entries within the batch.

All Entry Detail Records are hashed. Both Entry Detail Records and Addenda Records are included in the Entry/addenda counts; Batch Header and Batch Control Records are not included.

***File Control Record***

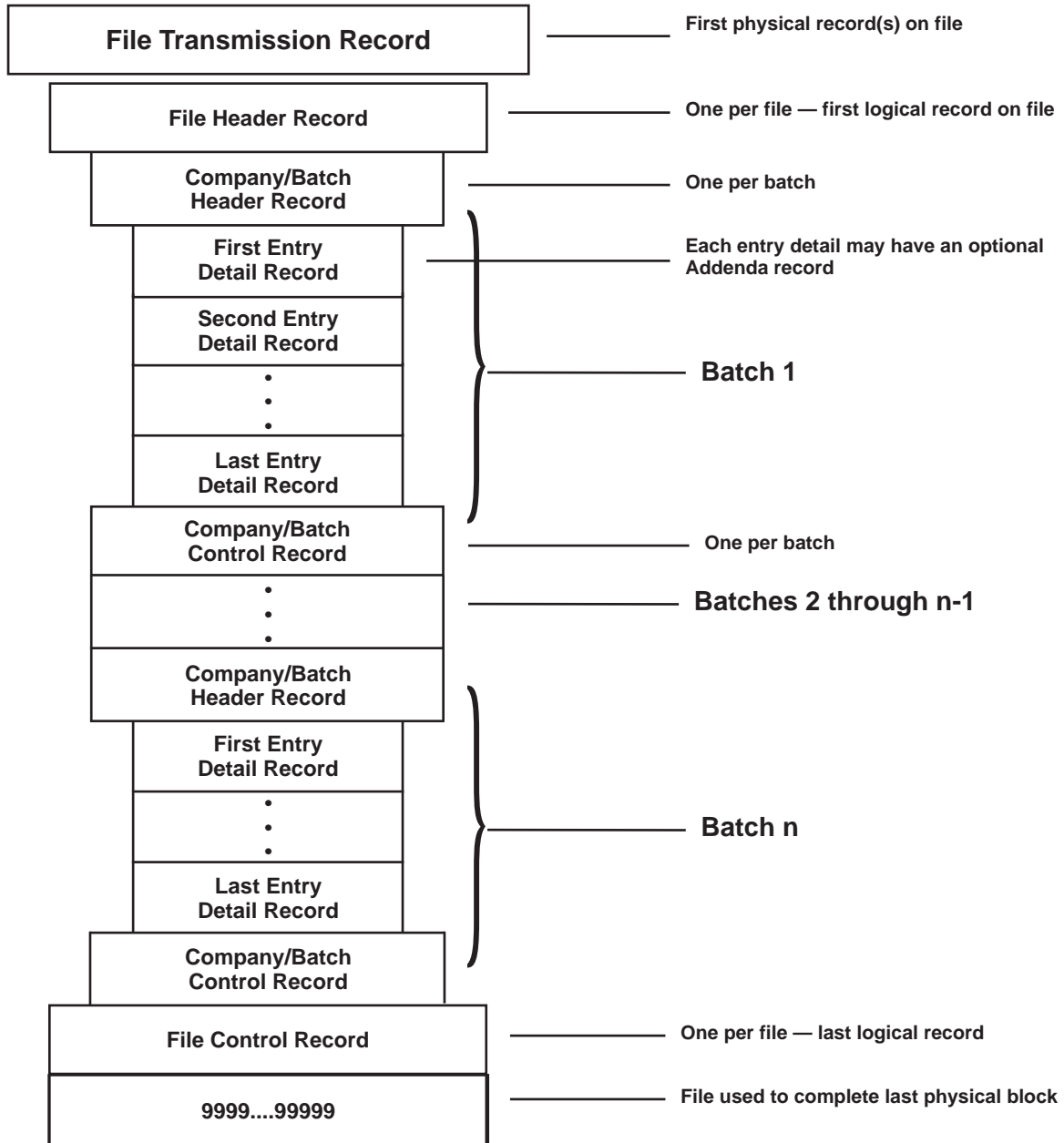
The File Control Record contains dollar, Entry, and hash total accumulations from the Company/Batch Control Records in the File. This Record also contains counts of the number of blocks and

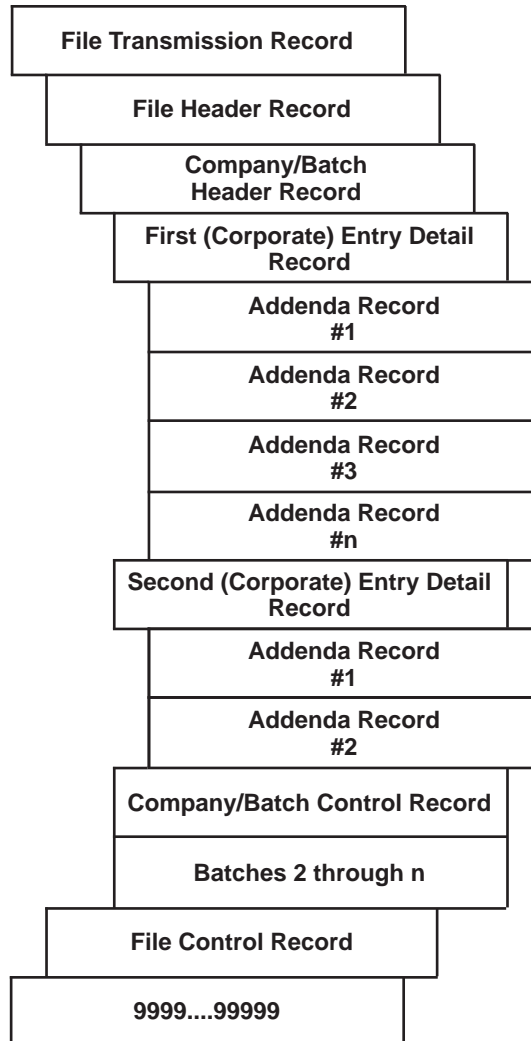
the number of batches within the File (or batched data Transmitted to a single destination).

**PART 1.5 Trace Number Sequence in ACH Files**

Individual Entry Detail Records within individual batches must be in ascending Trace Number order (although Trace Numbers need not necessarily be consecutive). The Trace Number in an Addenda Record is the same as that of the Entry Detail Record with which the Addenda Record is associated.

Addenda Records must be in consecutive ascending order by the Addenda Sequence Number.

**DIAGRAM OF SEQUENCE OF RECORDS FOR ACK, ARC, ATX, BOC, CCD, COR, CIE,  
DNE, MTE, POP, POS, PPD, RCK, SHR, TEL, AND WEB ENTRIES**

**DIAGRAM OF SEQUENCE OF RECORDS FOR  
CTX, ENR, IAT AND TRX ENTRIES**



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## APPENDIX TWO

# Specifications for Data Acceptance by ACH Operators

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The data acceptance criteria below apply to Entries Transmitted by Sending Points or ACH Operators. The ACH Operator will reject a File, batch, or Entry that does not comply with these specifications.

### PART 2.1 File Acknowledgment

Each Originating ACH Operator generates an acknowledgment for every File Transmitted for processing. The acknowledgment is in the form of a message or report transmitted or made available to the Sending Point electronically. The ACH Operator makes the acknowledgment available as soon as possible after the completion of the edits listed in Parts 2.3 (Automatic File Rejection Criteria), 2.4 (Automatic Batch or File Rejection Criteria), and 2.5 (Automatic Entry Detail Rejection Criteria) of this Appendix Two. At a minimum, the acknowledgment includes information from the following fields within the Sending Point's File Header and File Control Records:

- a. Immediate Origin
- b. Immediate Origin Name (if available)
- c. File Creation Date
- d. File Creation Time (if available)
- e. File ID Modifier
- f. File Entry/Addenda Count
- g. Total Debit Entry Dollar Amount in File
- h. Total Credit Entry Dollar Amount in File
- i. File Batch Count.

The acknowledgment also contains the date and time the File was processed by the ACH Operator and, if the File was rejected, the reason for the rejection. If the File was not rejected, but one or more batches were rejected by the ACH Operator, the acknowledgment will also contain the following information about each rejected batch:

- j. Originating DFI Identification
- k. Originating DFI Name (if available)
- l. Company Name
- m. Company Identification
- n. Batch Number
- o. Effective Entry Date
- p. Batch Entry/Addenda Count
- q. Total Debit Dollar Amount
- r. Total Credit Dollar Amount
- s. Reason for Batch Rejection.

### PART 2.2 Originator Status Code Review

Each Originating ACH Operator reviews each batch of Entries it receives to ensure that the appropriate status code pertaining to the Originator (the "Originator Status Code") is included in accordance with Appendix Three (ACH Record Format Specifications). If a batch of Entries contains an incorrect Originator Status Code or contains no Originator Status Code, the ACH Operator either rejects the batch or inserts the correct Originator Status Code.

### PART 2.3 Automatic File Rejection Criteria

The ACH Operator will always reject the entire File if any of the following error conditions exists:

- The File cannot be successfully read, e.g., data read failures, improper block size, presence of invalid header labels, hardware/software error checks indicated.
- The File contains any "undefined" record type.
- The File Header Record does not contain the number of a valid Sending Point or ACH Operator (as defined on the ACH Operator routing table file).
- The File is "out-of-balance," i.e., one or more of the following conditions exist:
  - the summation of the counts, hash totals, and total dollars on Company/Batch Control Records does not agree with the File Control Record.

- the actual number of blocks or batches in the File does not agree with the File Control Record counts.
- Mandatory fields in the File Header Record are not valid:
  - File ID Modifier is not uppercase A-Z or 0-9.
  - Record size is not 094.
  - Blocking Factor is not 10.
  - Format Code is not 1.
- The sequence of records in the File is incorrect.
- The Immediate Origin, File Creation Date, File Creation Time, and File ID Modifier are equal to that of a previously accepted file.
- The Trace Numbers on the File are not in ascending sequence within a batch.
- The Transaction Code in an Entry Detail Record is invalid.
- The ODFI of a TRC/TRX batch is not a participant in a check truncation program.
- The Amount field in an Entry Detail Record is non-numeric.
- The sequence of records in the batch is incorrect.
- The batch is “out-of-balance,” i.e., the counts, hash totals, or dollars in the Company/Batch Control Records do not agree with the summation of the Entries for the batch.
- The Company Name is all spaces or all zeros.
- The Company Entry Description is all spaces or all zeros.
- The Company Identification is all spaces or all zeros.
- The Originator Status Code is not equal to “2” for DNE if the Transaction Code is 23 or 33.
- The Standard Entry Class Code in the Company/Batch Header Record is not a valid code.
- The Service Class Code in the Company/Batch Control Record is not the same as that in the Company/Batch Header Record.
- The first eight positions of the Trace Number in an Entry Detail Record are not the same as the ODFI Routing Number in the corresponding (immediately preceding) Company/Batch Header Record.
- The Transaction Code in an Entry Detail Record is not valid for the Service Class Code in the Company/Batch Header Record. Either a debit Transaction Code is in a credit batch, or a credit Transaction Code is in a debit batch.

## **PART 2.4 Automatic Batch or File Rejection Criteria**

A Sending Point must choose either a batch level reject option or a File level reject option for any batch(es) within the File that meets one or more of the error conditions defined below. If the Sending Point chooses the File level reject option, the ACH Operator will reject the entire File containing the erroneous batch(es). If the Sending Point chooses the batch level reject option, those specific batches with an erroneous condition will be rejected, but the remaining batches within the File will be accepted and processed by the ACH Operator.

The ACH Operator will reject a batch or the entire File, depending on the reject option selected, if any batch meets any of the following error conditions:

- The batch contains invalid characters (i.e., characters not specified in Appendix One, ACH File Exchange Specifications).
- Except for Files coming from another ACH Operator, the ODFI Identification in the Company/Batch Header Record is not the routing number of a valid ODFI.
- The Service Class Code in a Company/Batch Header Record is not a valid code.

- The Transaction Code in an Entry Detail Record is not valid for the Standard Entry Class Code in the Company/Batch Header Record. For Standard Entry Class Code COR, the Transaction Code must be 21, 26, 31, 36, 41, 46, 51, or 56. For Standard Entry Class Code DNE, the Transaction Code must be 21, 23, 31, or 33.
- Forward Entries and Return Entries are in the same batch.
- Return, dishonored Return, and/or contested dishonored Return Entries are in the same batch.
- The Batch Number in the Company/Batch Header Record is non-numeric.
- The Batch Number in the Company/Batch Control Record is non-numeric.
- The Batch Number in the Company/Batch Control Record is not the same as the Batch Number in the Company/Batch Header Record.
- The Foreign Exchange Indicator is all spaces or all zeros (IAT Entries).
- The ISO Destination Country Code is all spaces or all zeros (IAT Entries).
- The Originator Identification is all spaces or all zeros (IAT Entries).
- The ISO Originating Currency Code is all spaces or all zeros (IAT Entries).
- The ISO Destination Currency Code is all spaces or all zeros (IAT Entries).
- The GO Identification/Originating DFI Identification in the Company/Batch Header Record is not the routing number of a valid Gateway Operator or ODFI (IAT Entries).

## **PART 2.5 Automatic Entry Detail Rejection Criteria**

ACH Operators use Return Reason Codes for the following error conditions. These error conditions will never cause the entire File or batch to be rejected but will always cause the Entry Detail Record to be returned using an Addenda Record with an Addenda Type Code of “99.” Return Entries must comply with the requirements of Appendix Four (Return Entries).

### **R13 *Invalid ACH Routing Number***

- Entry contains a Receiving DFI Identification or GO Identification that is not a valid ACH routing number.

### **R18 *Improper Effective Entry Date***

- The Effective Entry Date for a credit Entry is more than two Banking Days after the Banking Day of processing as established by the Originating ACH Operator.
- The Effective Entry Date for a debit entry is more than one Banking Day after the processing date.

### **R19 *Amount Field Error***

- Amount field is non-numeric.
- Amount field is not zero in a Prenotification, DNE, ENR, Notification of Change, refused Notification of Change, or zero dollar Entry.
- Amount field is zero in an Entry other than a Prenotification, DNE, ENR, Notification of Change, refused Notification of Change, Return, dishonored Return, contested dishonored Return, or zero dollar Entry.
- Amount field is greater than \$25,000 for ARC, BOC, and POP Entries.

### **R25 *Addenda Error***

- Addenda Record Indicator value is not 0 or 1.
- Addenda Record Indicator value is 0 but Addenda Record follows.

- Addenda Record Indicator value is 1 but no Addenda Record follows.
- Addenda Record Indicator on a CTX, ENR, IAT, or TRX Entry is 0 and Number of Addenda Records is not zero. Addenda Record Indicator is 1 and Number of Addenda Records is 0.
- The Addenda Record Indicator for Notifications of Change, refused Notifications of Change, Returns, dishonored Returns, contested dishonored Returns, DNE, ENR, MTE, POS, SHR, TRX, and zero dollar Entries other than Prenotifications is not equal to “1.” The Addenda Record Indicator for IAT Entries, including Prenotification Entries, is not equal to “1.”
- Addenda Type Code is not valid if not equal to “02” for MTE, POS, or SHR Entries; “05” for ACK, ATX, CCD, CIE, CTX, DNE, ENR, PPD, TRX, or WEB Entries; “98” on Notification of Change or refused Notification of Change; or “99” on Return, dishonored Return, or contested dishonored Return Entries.
- For IAT Entries, Addenda Type Code is not valid if not equal to “10,” “11,” “12,” “13,” “14,” “15,” “16,” “17,” or “18.” Addenda Type Code for an IAT Return is not valid if not equal to “10,” “11,” “12,” “13,” “14,” “15,” “16,” or “99.” Addenda Type Code for an IAT Notification of Change is not valid if not equal to “98.”
- For IAT forward Entries and IAT Returns, Addenda Type Codes 10-16 are not in appropriate sequential order.
- One or more mandatory Addenda Records for IAT forward Entries, Returns, and Notifications of Change is missing.
- For IAT forward Entries and IAT Returns, the Entry contains more than one of each of the following Addenda Types: “10,” “11,” “12,” “13,” “14,” “15,” and “16.”
- For IAT forward Entries, the Entry contains more than two Addenda Records for Remittance Information (Addenda Type Code 17).
- Total number of Addenda Records exceeds the maximum number allowable (9,999) per Entry Detail Record (CTX, ENR, or TRX).
- Total number of Addenda Records exceeds the maximum allowable (12) per Entry Detail Record (IAT).
- The number of Addenda Records exceeds one (1) for CCD, CIE, DNE, MTE, POS, PPD, SHR, WEB, Notifications of Change, refused Notifications of Change, Returns, dishonored Returns, and contested dishonored Returns.
- Addenda Sequence Number is not valid.
- The actual number of Addenda Records is not equal to the number of Addenda Records in the Corporate Entry Detail Record (CTX) or the Entry Detail Record (ENR, IAT, TRX).
- For IAT forward Entries and IAT Returns, the Entry Detail Sequence Number does not correspond to the Trace Number on the preceding IAT Entry Detail Record.

#### R26 *Mandatory Field Error*

- Individual Name contains all spaces or all zeros (MTE, TEL, and WEB Entries).
- For IAT Entries, any mandatory field contains all spaces or all zeros.
- Individual Identification Number contains all spaces or all zeros (MTE Entries or CIE Entries).
- Check Serial Number contains all spaces or all zeros (ARC, BOC, POP, RCK, or XCK Entries).
- Terminal City contains all spaces or all zeros (POP Entries only).
- Terminal State contains all spaces or all zeros (POP Entries only).
- Card Transaction Type Code is not a valid code as specified in Appendix Three (ACH Record Format Specifications) (POS and SHR Entries only).

- Number of Addenda Records in a Corporate Entry Detail Record or IAT Entry Detail Record is not numeric.
- The Return Reason Code field for Return Entries, the Dishonored Return Reason Code field for dishonored Returns, or the Contested Dishonored Return Reason Code field for contested dishonored Returns does not contain a valid code as specified in Appendix Four (Return Entries).
- Dishonored Return Entries, contested dishonored Return Entries, and refused COR Entries are not permitted for use with the IAT Standard Entry Class Code.
- The Change Code field for Notification of Change Entries or the Refused COR Code field for refused Notification of Change Entries does not contain a valid code as specified in Appendix Five (Notification of Change).
- On a Notification of Change or Refused Notification of Change, the Corrected Data field is blank, or on a refused Notification of Change, the Change Code is not a currently assigned value (see Appendix Five, Notification of Change) or the COR Trace Sequence Number field is not numeric. A refused Notification of Change is denoted by a valid Refused COR Code in the Refused COR Code field. See Appendix Five for a list of valid codes.
- In a dishonored Return or contested dishonored Return, the Return Trace Number is not numeric, the Return Settlement Date is not a valid Julian Date in the range 001-366, or the Return Reason Code is not a currently assigned value for Returns.
- In a dishonored Return bearing Return Reason Code R69 (Field Error), the Addenda Information Field contains all spaces or all zeros.
- In a contested dishonored Return, the Dishonored Return Trace Number is not numeric, the Dishonored Return Settlement Date is not a valid Julian Date in the range 001-366, or the Dishonored Return Reason

Code is not a currently assigned value for dishonored Returns.

- In a contested dishonored Return with Contested Dishonored Return Reason Code R73 (timely original Return), the Original Settlement Date is not a valid Julian date in the range 001-366, or the Date Original Entry Returned is not a valid date.

#### R27 *Trace Number Error*

- Original Entry Trace Number is not present in the Addenda Record on a Return or Notification of Change Entry.
- Trace Number of an Addenda Record is not the same as the Trace Number of the preceding Entry Detail Record.

#### R28 *Routing Number Check Digit Error*

- The Check Digit for a routing number is not valid.

#### R30 *RDFI Not Participant in Check Truncation Program*

#### R32 *RDFI Non-Settlement*

- The 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 Entries (with the exception of Reversals) are not permitted for use with the CIE Standard Entry Class Code.

- ACH debit Entries (with the exception of Reversals) are not permitted to loan accounts.

#### R36 *Return of Improper Credit Entry*

- ACH credit Entries (with the exception of Reversals) are not permitted for use with the following Standard Entry Class Codes: ARC, BOC, POP, RCK, TEL, WEB, and XCK.



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## APPENDIX THREE

# ACH Record Format Specifications

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The ACH Record format specifications are designed to assist ACH participants in properly formatting and retrieving transaction information. This appendix details the contents of the various Record formats and defines the code values and data elements. The inclusion requirements, contents, and lengths of data elements are illustrated in the Record formats, which are arranged according to their sequence in the File. The glossary defines and explains the application of each field.

### **PART 3.1 Record Formats**

The ACH Record formats appear on the following pages. The first Record formats (3.1.1) are the File Header and File Control Records. These two Records act as the outermost envelope of an ACH transaction and convey information related to the destination and origin of the transaction, as well as the total amount of debits and credits within the File. The format of these Records is consistent for all Entries, regardless of the Standard Entry Class Code.

The second set of Record formats (3.1.2) contains the Company/Batch Header and Company/Batch Control Records. The Batch Records act as an inner envelope, combining similar Entries and providing information about the Originator. Like the File Records, the format of these Records is consistent for all Entries, regardless of the Standard Entry Class Code (with the exception of ADV and IAT Entries). The remaining Sequence of Records (3.1.3 – 3.1.24) contains the Company/Batch Header, Entry Detail Records and Addenda Records according to Standard Entry Class Code, in alphabetical order.



## SUBPART 3.1.1 ACH File Record Format for All Entries

## ALL ENTRIES FILE HEADER RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	PRIORITY CODE	IMMEDIATE DESTINATION	IMMEDIATE ORIGIN	FILE CREATION DATE	FILE CREATION TIME	FILE ID MODIFIER	RECORD SIZE	BLOCKING FACTOR	FORMAT CODE	IMMEDIATE DESTINATION NAME	IMMEDIATE ORIGIN NAME	REFERENCE CODE
<i>Field Inclusion Requirement</i>	M	R	M	M	M	O	M	M	M	M	O	O	O
<i>Contents</i>	'1'	Numeric	bTTTTAAAC	bTTTTAAAC	YYMMDD	HHMM	UPPER CASE A-Z NUMERIC 0-9	'094'	'10'	'1'	Alphameric	Alphameric	Alphameric
<i>Length</i>	1	2	10	10	6	4	1	3	2	1	23	23	8
<i>Position</i>	01-01	02-03	04-13	14-23	24-29	30-33	34-34	35-37	38-39	40-40	41-63	64-86	87-94

## ALL ENTRIES FILE CONTROL RECORD

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	BATCH COUNT	BLOCK COUNT	ENTRY/ADDENDA COUNT	ENTRY HASH	TOTAL DEBIT ENTRY DOLLAR AMOUNT IN FILE	TOTAL CREDIT ENTRY DOLLAR AMOUNT IN FILE	RESERVED
<i>Field Inclusion Requirement</i>	M	M	M	M	M	M	M	N/A
<i>Contents</i>	'9'	Numeric	Numeric	Numeric	Numeric	\$\$\$\$\$\$\$\$\$€€	\$\$\$\$\$\$\$\$\$€€	Blank
<i>Length</i>	1	6	6	8	10	12	12	39
<i>Position</i>	01-01	02-07	08-13	14-21	22-31	32-43	44-55	56-94

## SUBPART 3.1.2 ACH Batch Record Format for All Entries

## ALL ENTRIES COMPANY/BATCH HEADER RECORD (EXCEPT IAT)

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	COMPANY NAME	COMPANY DISCRETIONARY DATA	COMPANY IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	COMPANY DESCRIPTIVE DATE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	O	M	M	M	O	R	Inserted by ACH Operator	M	M	M
<i>Contents</i>	'5'	Numeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	YYMMDD	Numeric	Alphanumeric	TTTTAAAA	Numeric
<i>Length</i>	1	3	16	20	10	3	10	6	6	3	1	8	7
<i>Position</i>	01-01	02-04	05-20	21-40	41-50	51-53	54-63	64-69	70-75	76-78	79-79	80-87	88-94

## ALL ENTRIES COMPANY/BATCH CONTROL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	ENTRY/ ADDENDA COUNT	ENTRY HASH	TOTAL DEBIT ENTRY DOLLAR AMOUNT	TOTAL CREDIT ENTRY DOLLAR AMOUNT	COMPANY IDENTIFICATION	MESSAGE AUTHENTICATION CODE	RESERVED	ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	M	M	R	O	N/A	M	M
<i>Contents</i>	'8'	Numeric	Numeric	Numeric	\$\$\$\$\$\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$\$\$\$\$\$	Alphanumeric	Alphanumeric	Blank	TTTTAAAA	Numeric
<i>Length</i>	1	3	6	10	12	12	10	19	6	8	7
<i>Position</i>	01-01	02-04	05-10	11-20	21-32	33-44	45-54	55-73	74-79	80-87	88-94

## SUBPART 3.1.3 Company/Batch Header Record for International ACH Transaction (IAT) Entries

## IAT COMPANY/BATCH HEADER RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	IAT INDICATOR	FOREIGN EXCHANGE INDICATOR	FOREIGN EXCHANGE REFERENCE INDICATOR	FOREIGN EXCHANGE REFERENCE	ISO DESTINATION COUNTRY CODE	ORIGINATOR IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	ISO ORIGINATING CURRENCY CODE	ISO DESTINATION CURRENCY CODE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	GO IDENTIFICATION ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
Field Inclusion Requirement	M	M	O	M	R	R	M	M	M	M	M	M	R	Inserted by ACH Operator	M	M	M
Contents	'5'	Numeric	Alphanumeric	Alphanumeric	Numeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	YYMMDD	Numeric	Alphanumeric	TTTTAAAA	Numeric
Length	1	3	16	2	1	15	2	10	3	10	3	3	6	3	1	8	7
Position	01-01	02-04	05-20	21-22	23-23	24-38	39-40	41-50	51-53	54-63	64-66	67-69	70-75	76-78	79-79	80-87	88-94

## SUBPART 3.1.4 ACH File Record Format for ADV Entries

## ADV FILE HEADER RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	PRIORITY CODE	IMMEDIATE DESTINATION	IMMEDIATE ORIGIN	FILE CREATION DATE	FILE CREATION TIME	FILE ID MODIFIER	RECORD SIZE	BLOCKING FACTOR	FORMAT CODE	IMMEDIATE DESTINATION NAME	IMMEDIATE ORIGIN NAME	REFERENCE CODE
<i>Field Inclusion Requirement</i>	M	R	M	M	M	O	M	M	M	M	M	M	O
<i>Contents</i>	'1'	Numeric	bTTTTAAAC	bTTTTAAAC	YYMMDD	HHMM	UPPER CASE A-Z NUMERIC 0-9	'094'	'10'	'1'	Alphabetic	Alphabetic	Alphabetic
<i>Length</i>	1	2	10	10	6	4	1	3	2	1	23	23	8
<i>Position</i>	01-01	02-03	04-13	14-23	24-29	30-33	34-34	35-37	38-39	40-40	41-63	64-86	87-94

## ADV FILE CONTROL RECORD

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	BATCH COUNT	BLOCK COUNT	ENTRY/ADDENDA COUNT	ENTRY HASH	TOTAL DEBIT ENTRY DOLLAR AMOUNT IN FILE	TOTAL CREDIT ENTRY DOLLAR AMOUNT IN FILE	RESERVED
<i>Field Inclusion Requirement</i>	M	M	M	M	M	M	M	N/A
<i>Contents</i>	'9'	Numeric	Numeric	Numeric	Numeric	\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$	Blank
<i>Length</i>	1	6	6	8	10	20	20	23
<i>Position</i>	01-01	02-07	08-13	14-21	22-31	32-51	52-71	72-94

## SUBPART 3.1.5 Sequence of Records for ADV Entries (continued)

## ADV COMPANY/BATCH CONTROL RECORD

FIELD	1	2	3	4	5	6	7	8	9
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	ENTRY/ADDENDA COUNT	ENTRY HASH	TOTAL DEBIT ENTRY DOLLAR AMOUNT	TOTAL CREDIT ENTRY DOLLAR AMOUNT	ACH OPERATOR DATA	ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
Field Inclusion Requirement	M	M	M	M	M	M	O	M	M
Contents	'8'	Numeric	Numeric	Numeric	\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$	Alphameric	TTTTAAAA	Numeric
Length	1	3	6	10	20	20	19	8	7
Position	01-01	02-04	05-10	11-20	21-40	41-60	61-79	80-87	88-94

## ADV ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	ADVICE ROUTING NUMBER	FILE IDENTIFICATION	ACH OPERATOR DATA	INDIVIDUAL NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	ROUTING NUMBER OF ACH OPERATOR	JULIAN DATE ON WHICH THIS ADVISE IS CREATED	SEQUENCE NUMBER WITHIN BATCH
Field Inclusion Requirement	M	M	M	M	R	M	M	O	O	R	O	M	M	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphameric	\$\$\$\$\$\$\$\$\$\$\$\$	Numeric	Alphameric	Alphameric	Alphameric	Alphameric	Numeric	TTTTAAAA	Numeric	Numeric
Length	1	2	8	1	15	12	9	5	1	22	2	1	8	3	4
Position	01-01	02-03	04-11	12-12	13-27	28-39	40-48	49-53	54-54	55-76	77-78	79-79	80-87	88-90	91-94

## SUBPART 3.1.6 Sequence of Records for ARC Entries

## ARC ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	CHECK SERIAL NUMBER	INDIVIDUAL NAME/ RECEIVING COMPANY NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	M	O	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$\$\$	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94



## SUBPART 3.1.7 Sequence of Records for BOC Entries

## BOC ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	CHECK SERIAL NUMBER	INDIVIDUAL NAME/RECEIVING COMPANY NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	M	O	O	M	M
Content/s	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$\$\$e¢	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

**SUBPART 3.1.8 Sequence of Records for CCD Entries****CCD ENTRY DETAIL RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	IDENTIFICATION NUMBER	RECEIVING COMPANY NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	O	R	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$\$	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

**CCD ADDENDA RECORD**

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
<i>Field Inclusion Requirement</i>	M	M	O	M	M
Contents	'7'	'05'	Alphanumeric	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94

## SUBPART 3.1.9 Sequence of Records for CIE Entries

## CIE ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL NAME	INDIVIDUAL IDENTIFICATION NUMBER	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	R	M	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$¢¢	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

## CIE ADDENDA RECORD

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	M
Contents	'7'	'05'	Alphanumeric	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94

## SUBPART 3.1.10 Sequence of Records for CTX Entries

## CTX CORPORATE ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	TOTAL AMOUNT	IDENTIFICATION NUMBER	NUMBER OF ADDENDA RECORDS	RECEIVING COMPANY NAME/ID NUMBER	RESERVED	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O	M	R	N/A	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$\$%%	Alphanumeric	Numeric	Alphanumeric	Blank	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	4	16	2	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-58	59-74	75-76	77-78	79-79	80-94

## CTX ADDENDA RECORD

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	M
Contents	'7'	'05'	Alphanumeric	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94

## SUBPART 3.1.11 Sequence of Records for DNE Entries

## DNE ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL IDENTIFICATION NUMBER	INDIVIDUAL NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O	R	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphabetic	\$\$\$\$\$\$\$	Alphabetic	Alphabetic	Alphabetic	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

## DNE ADDENDA RECORD

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	M
Contents	'7'	'05'	Alphabetic	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94

## SUBPART 3.1.12 Sequence of Records for ENR Entries

## ENR ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	IDENTIFICATION NUMBER	NUMBER OF ADDENDA RECORDS	RECEIVING COMPANY NAME/ID NUMBER	RESERVED	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	O	M	R	N/A	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	000000000000	Alphanumeric	Numeric	Alphanumeric	Blank	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	4	16	2	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-58	59-74	75-76	77-78	79-79	80-94

## ENR ADDENDA RECORD

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
<i>Field Inclusion Requirement</i>	M	M	R	M	M
Contents	'7'	'05'	Alphanumeric	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94



## SUBPART 3.1.13 Sequence of Records for IAT Entries

## IAT ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	GO IDENTIFICATION/RECEIVING DFI IDENTIFICATION	CHECK DIGIT	NUMBER OF ADDENDA RECORDS	RESERVED	AMOUNT	FOREIGN RECEIVER'S ACCOUNT NUMBER/ DFI ACCOUNT NUMBER	RESERVED	GATEWAY OPERATOR OFAC SCREENING INDICATOR	SECONDARY OFAC SCREENING INDICATOR	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	M	N/A	M	M	N/A	O	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Numeric	Blank	\$\$\$\$\$\$\$¢¢	Alphanumeric	Blank	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	4	13	10	35	2	1	1	1	15
Position	01-01	02-03	04-11	12-12	13-16	17-29	30-39	40-74	75-76	77-77	78-78	79-79	80-94

## FIRST IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	TRANSACTION TYPE CODE	FOREIGN PAYMENT AMOUNT	FOREIGN TRACE NUMBER	RECEIVING COMPANY NAME/INDIVIDUAL NAME	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	R	R	O	M	N/A	M
Contents	'7'	'10'	Alphanumeric	\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$¢¢	Alphanumeric	Alphanumeric	Blank	Numeric
Length	1	2	3	18	22	35	6	7
Position	01-01	02-03	04-06	07-24	25-46	47-81	82-87	88-94

## SUBPART 3.1.13 Sequence of Records for IAT Entries (continued)

## SECOND IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	ORIGINATOR NAME	ORIGINATOR STREET ADDRESS	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	N/A	M
Contents	'7'	'11'	Alphameric	Alphameric	Blank	Numeric
Length	1	2	35	35	14	7
Position	01-01	02-03	04-38	39-73	74-87	88-94

## THIRD IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	ORIGINATOR CITY & STATE/PROVINCE	ORIGINATOR COUNTRY & POSTAL CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	N/A	M
Contents	'7'	'12'	Alphameric	Alphameric	Blank	Numeric
Length	1	2	35	35	14	7
Position	01-01	02-03	04-38	39-73	74-87	88-94

## SUBPART 3.1.13 Sequence of Records for IAT Entries (continued)

## FOURTH IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	ORIGINATING DFI NAME	ORIGINATING DFI IDENTIFICATION NUMBER QUALIFIER	ORIGINATING DFI IDENTIFICATION	ORIGINATING DFI BRANCH COUNTRY CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	M	M	N/A	M
Contents	'7'	'13'	Alphameric	Alphameric	Alphameric	Alphameric	Blank	Numeric
Length	1	2	35	2	34	3	10	7
Position	01-01	02-03	04-38	39-40	41-74	75-77	78-87	88-94

## FIFTH IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	RECEIVING DFI NAME	RECEIVING DFI IDENTIFICATION NUMBER QUALIFIER	RECEIVING DFI IDENTIFICATION	RECEIVING DFI BRANCH COUNTRY CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	M	M	N/A	M
Contents	'7'	'14'	Alphameric	Alphameric	Alphameric	Alphameric	Blank	Numeric
Length	1	2	35	2	34	3	10	7
Position	01-01	02-03	04-38	39-40	41-74	75-77	78-87	88-94

## SUBPART 3.1.13 Sequence of Records for IAT Entries (continued)

## SIXTH IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	RECEIVER IDENTIFICATION NUMBER	RECEIVER STREET ADDRESS	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	N/A	M
Contents	'7'	'15'	Alphanumeric	Alphanumeric	Blank	Numeric
Length	1	2	15	35	34	7
Position	01-01	02-03	04-18	19-53	54-87	88-94

## SEVENTH IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	RECEIVER CITY & STATE/PROVINCE	RECEIVER COUNTRY & POSTAL CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	N/A	M
Contents	'7'	'16'	Alphanumeric	Alphanumeric	Blank	Numeric
Length	1	2	35	35	14	7
Position	01-01	02-03	04-38	39-73	74-87	88-94

## SUBPART 3.1.13 Sequence of Records for IAT Entries (continued)

## IAT ADDENDA RECORD FOR REMITTANCE INFORMATION

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	M
Contents	'7'	'17'	Alphanumeric	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94

NOTE: A maximum of two optional remittance addenda records may be included with each IAT entry.

## IAT ADDENDA RECORD FOR FOREIGN CORRESPONDENT BANK INFORMATION

FIELD	1	2	3	4	5	6	7	8	9
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	FOREIGN CORRESPONDENT BANK NAME	FOREIGN CORRESPONDENT IDENTIFICATION NUMBER QUALIFIER	FOREIGN CORRESPONDENT BANK IDENTIFICATION NUMBER	FOREIGN CORRESPONDENT BANK BRANCH COUNTRY CODE	RESERVED	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	M	M	N/A	M	M
Contents	'7'	'18'	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Blank	Numeric	Numeric
Length	1	2	35	2	34	3	6	4	7
Position	01-01	02-03	04-38	39-40	41-74	75-77	78-83	84-87	88-94

NOTE: Each Foreign Correspondent Bank involved in the processing of an IAT entry must be identified within an Addenda Record for IAT Foreign Correspondent Bank Information.

## SUBPART 3.1.14 Sequence of Records for MTE Entries

## MTE ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL NAME	INDIVIDUAL IDENTIFICATION NUMBER	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	M	M	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$\$\$	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

## MTE ADDENDA RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	TRANSACTION DESCRIPTION	NETWORK IDENTIFICATION CODE	TERMINAL IDENTIFICATION CODE	TRANSACTION SERIAL NUMBER	TRANSACTION DATE	TRANSACTION TIME	TERMINAL LOCATION	TERMINAL CITY	TERMINAL STATE	TRACE NUMBER
Field Inclusion Requirement	M	M	R	O	R	R	R	R	R	R	R	M
Contents	'7'	'02'	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	MMDD	HHMMSS	Alphanumeric	Alphanumeric	Alphanumeric	Numeric
Length	1	2	7	3	6	6	4	6	27	15	2	15
Position	01-01	02-03	04-10	11-13	14-19	20-25	26-29	30-35	36-62	63-77	78-79	80-94



## SUBPART 3.1.15 Sequence of Records for POP Entries

## POP ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	CHECK SERIAL NUMBER	TERMINAL CITY	TERMINAL STATE	INDIVIDUAL NAME/ RECEIVING COMPANY NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	M	M	M	O	O	M	M
<i>Contents</i>	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$\$\$	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
<i>Length</i>	1	2	8	1	17	10	9	4	2	22	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-48	49-52	53-54	55-76	77-78	79-79	80-94

## SUBPART 3.1.16 Sequence of Records for POS Entries

## POS ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL IDENTIFICATION NUMBER	INDIVIDUAL NAME	CARD TRANSACTION TYPE CODE	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O	R	M	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$¢¢¢	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

## POS ADDENDA RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	REFERENCE INFORMATION #1	REFERENCE INFORMATION #2	TERMINAL IDENTIFICATION CODE	TRANSACTION SERIAL NUMBER	TRANSACTION DATE	AUTHORIZATION CODE OR CARD EXPIRATION DATE	TERMINAL LOCATION	TERMINAL CITY	TERMINAL STATE	TRACE NUMBER
Field Inclusion Requirement	M	M	O	O	R	R	R	O	R	R	R	M
Contents	'7'	'02'	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	MMDD	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Numeric
Length	1	2	7	3	6	6	4	6	27	15	2	15
Position	01-01	02-03	04-10	11-13	14-19	20-25	26-29	30-35	36-62	63-77	78-79	80-94

## SUBPART 3.1.17 Sequence of Records for PPD Entries

## PPD ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL IDENTIFICATION NUMBER	INDIVIDUAL NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O	R	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$ <del>cc</del>	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

## PPD ADDENDA RECORD

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	M
Contents	'7'	'05'	Alphanumeric	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94

## SUBPART 3.1.18 Sequence of Records for RCK Entries

## RCK ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	CHECK SERIAL NUMBER	INDIVIDUAL NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	M	R	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

## SUBPART 3.1.19 Sequence of Records for SHR Entries

## SHR ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	CARD EXPIRATION DATE	DOCUMENT REFERENCE NUMBER	INDIVIDUAL CARD ACCOUNT NUMBER	CARD TRANSACTION TYPE CODE	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	R	R	R	M	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$\$\$	MMYY	Numeric	Numeric	Numeric	Numeric	Numeric
Length	1	2	8	1	17	10	4	11	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-43	44-54	55-76	77-78	79-79	80-94

## SHR ADDENDA RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	REFERENCE INFORMATION #1	REFERENCE INFORMATION #2	TERMINAL IDENTIFICATION CODE	TRANSACTION SERIAL NUMBER	TRANSACTION DATE	AUTHORIZATION CODE OR CARD EXPIRATION DATE	TERMINAL LOCATION	TERMINAL CITY	TERMINAL STATE	TRACE NUMBER
Field Inclusion Requirement	M	M	O	O	R	R	R	O	R	R	R	M
Contents	'7'	'02'	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	MMDD	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Numeric
Length	1	2	7	3	6	6	4	6	27	15	2	15
Position	01-01	02-03	04-10	11-13	14-19	20-25	26-29	30-35	36-62	63-77	78-79	80-94

## SUBPART 3.1.20 Sequence of Records for TEL Entries

## TEL ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL IDENTIFICATION NUMBER	INDIVIDUAL NAME	PAYMENT TYPE CODE	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O	M	O	M	M
Content/s	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$¢	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94



## SUBPART 3.1.21 Sequence of Records for TRC Entries

## TRC ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	CHECK SERIAL NUMBER	PROCESS CONTROL FIELD	ITEM RESEARCH NUMBER	ITEM TYPE INDICATOR	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	O	R	R	O	M	M
<i>Contents</i>	'6'	Numeric	TTTTAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
<i>Length</i>	1	2	8	1	17	10	15	6	16	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-60	61-76	77-78	79-79	80-94

## SUBPART 3.1.22 Sequence of Records for TRX Entries

## TRX ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	TOTAL AMOUNT	IDENTIFICATION NUMBER	NUMBER OF ADDENDA RECORDS	RECEIVING COMPANY NAME/ID NUMBER	RESERVED	ITEM TYPE INDICATOR	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O	M	R	N/A	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$\$%	Alphanumeric	Numeric	Alphanumeric	Blank	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	4	16	2	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-58	59-74	75-76	77-78	79-79	80-94

## TRX ADDENDA RECORD

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	M
Contents	'7'	'05'	Alphanumeric	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94

## SUBPART 3.1.23 Sequence of Records for WEB Entries

## WEB ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL IDENTIFICATION NUMBER	INDIVIDUAL NAME	PAYMENT TYPE CODE	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O	M	R	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$\$	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

## WEB ADDENDA RECORD

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	M
Contents	'7'	'05'	Alphanumeric	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94

## SUBPART 3.1.24 Sequence of Records for XCK Entries

## XCK ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	CHECK SERIAL NUMBER	PROCESS CONTROL FIELD	ITEM RESEARCH NUMBER	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	M	R	R	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphanumeric	\$\$\$\$\$\$\$\$\$e	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	6	16	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-60	61-76	77-78	79-79	80-94

## PART 3.2 Glossary of ACH Record Format Data Elements

### SUBPART 3.2.1 Field Inclusion Requirements

The following information defines the requirements for the inclusion of certain data fields in ACH Entries. This involves the standardization of three definitions: Mandatory, Required, and Optional.

**Mandatory for ACH Operator Processing.** A “Mandatory” field is necessary to ensure the proper routing and/or posting of an ACH Entry. Any “Mandatory” field not meeting required data specifications will cause that Entry, batch, or File to be Rejected by the ACH Operator. A Rejected Entry will be returned to the ODFI by the ACH Operator. A Rejected batch or Rejected File will be reported to the ODFI or Sending Point by the ACH Operator.

**Required for RDFI Processing.** The omission of a “Required” field will not cause an Entry Reject at the ACH Operator, but may cause a reject at the RDFI and may result in the return of the Entry. An example is the DFI Account Number field in the Entry Detail Record. If this field is omitted by an ODFI, the RDFI may return the Entry as nonpostable. Data classified as “Required” should be included by the Originator and ODFI to avoid processing and control problems at the RDFI.

**Optional.** The inclusion or omission of an “Optional” data field is at the discretion of the Originator and ODFI. However, if a DFI does originate Files using optional data fields, the RDFI must return these fields to the ODFI if the Entry is returned.

### SUBPART 3.2.2 Glossary of Data Elements

**ACH Operator Data:** 19 Positions - Company/Batch Control Record – Optional (ADV); 1 Position - Entry Detail Record – Optional (ADV)

This field is used as specified by the ACH Operator.

**Addenda Information:** 44 Positions – Addenda Record – Optional (Returns except IAT); 34 positions – Addenda Record – Optional (IAT Returns); 21 positions – Addenda Record – Optional/Mandatory (dishonored Returns)

Addenda Information is associated with the immediately preceding Entry Detail Record.

The Addenda Information field of a Return Entry is used by the RDFI to relay explanatory information that is required with the use of Return Reason Codes “R11” (Check Truncation Return) and “R17” (File Record Edit Criteria).

The Addenda Information Field of a Dishonored Return Entry is a mandatory field when the Dishonored Return bears Return Reason Code R69 (Field Errors). When using Return Reason Code R69, 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 Dishonored Returns to indicate the field(s) in which the errors occur:

- 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 an Invalid Effective Entry Date

For example: 01\*03\*06

**Addenda Record Indicator:** 1 Position - Entry Detail Record and Corporate Entry Detail Record – Mandatory (ACK, ADV, ARC, ATX, BOC, CCD, CIE, CTX, DNE, ENR, IAT, MTE, POP, POS, PPD, RCK, SHR, TEL, TRC, TRX, WEB, XCK, refused ACK, refused ATX, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

This field indicates the existence of an Addenda Record.

*Code Values:*

- 0 No Addenda Record follows the Entry
- 1 One or more Addenda Records follow the Entry

*IAT:* The value of this field for all IAT Entries, including IAT Prenotification Entries, will always be “1.”

*Zero dollar CCD, CTX, and IAT Entries, Notification of Change, Refused Notification of Change, Return, Dishonored Return, Contested Dishonored Return, DNE, ENR, MTE, POS, SHR, and TRX Entries:* The value of this field will always be “1”. This is not applicable to MTE, POS, SHR, or TRX Prenotifications.

**Addenda Sequence Number:** 4 Positions – Addenda Record – Mandatory (ACK, ATX, CCD, CIE, CTX, DNE, ENR, IAT, PPD, TRX, WEB)

This number is consecutively assigned to each Addenda Record following an Entry Detail Record. The first addenda sequence number must always be a “1.”

**Addenda Type Code:** 2 Positions – Addenda Record – Mandatory (ACK, ATX, CCD, CIE, CTX, DNE, ENR, IAT, MTE, POS, PPD, SHR, TRX, WEB, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

The Addenda Type Code defines the specific interpretation and format for the addenda information contained in the Entry.

*Code Values:*

- 02 Point of Sale Entry (POS), Shared Network Transaction (SHR), or Machine Transfer Entry (MTE)
- 05 Addenda Record (Applies to ACK, ATX, CCD, CIE, CTX, DNE, ENR, PPD, TRX, and WEB Entries)
- 10 1st Addenda Record for IAT Entry
- 11 2nd Addenda Record for IAT Entry
- 12 3rd Addenda Record for IAT Entry
- 13 4th Addenda Record for IAT Entry

- 14 5th Addenda Record for IAT Entry
- 15 6th Addenda Record for IAT Entry
- 16 7th Addenda Record for IAT Entry
- 17 Addenda Record for IAT Entry Remittance Information
- 18 Addenda Record for IAT Entry Foreign Correspondent Bank Information
- 98 Notification of Change (COR) Addenda Record and Refused Notification of Change (COR) Addenda Record
- 99 Return Entry Addenda Record, Dishonored Return Entry Addenda Record, and Contested Dishonored Return Entry Addenda Record

**Advice Routing Number:** 9 Positions – Entry Detail Record – Mandatory (ADV)

This field contains the Routing number and Check Digit of the DFI, Respondent, or Correspondent, as defined by the ACH Operator.

**Amount:** 10 Positions - Entry Detail Record – Mandatory (ACK, ARC, BOC, CCD, CIE, DNE, ENR, IAT, MTE, POP, POS, PPD, RCK, SHR, TEL, TRC, WEB, XCK, refused ACK, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR); 12 Positions - Entry Detail Record – Mandatory (ADV)

The RDFI posts the amount to the appropriate account authorized by the Receiver. A zero Amount is acceptable only with specific Transaction Codes.

*ADV:* The Automated Accounting Advice contains a 12 position field to record the summary debit or credit amount.

*ACK, ATX, COR, DNE, ENR:* The value of this field is always zero.

*CCD, CTX:* For a zero dollar Entry, the value of this field must be zero.

*IAT:* The value of this field is always reflected in U.S. Dollars.



**Authorization Code:** 6 Positions – Addenda Record – Optional (POS, SHR)

*POS, SHR:* This field indicates the code that a card authorization center has furnished to the merchant.

**Batch Count:** 6 Positions – File Control Record – Mandatory (all Files)

The value of this field must be equal to the number of Company/Batch Header Records in the File.

**Batch Number:** 7 Positions – Company/Batch Header Record and Company/Batch Control Record – Mandatory (all batches)

The ODFI or its Sending Point assigns this number in ascending sequence to each batch in a File of Entries. The batch number in the Company/Batch Header Record and the Company/Batch Control Record must be the same.

**Block Count:** 6 Positions – File Control Record – Mandatory (all Files)

The Block Count contains the number of blocks (a block is 940 characters) in the File, including both the File Header and File Control Records.

**Blocking Factor:** 2 Positions – File Header Record – Mandatory (all Files)

The Blocking Factor defines the number of Records within a block (a block is 940 characters). For all Files moving between a DFI and an ACH Operator (either way), the value “10” must be used. If the number of Records within the File is not a multiple of ten, the remainder of the block must be filled with “9’s.”

**Card Expiration Date:** 4 Positions – Entry Detail Record – Required (SHR); 6 Positions – Addenda Record – Optional (POS, SHR)

*POS, SHR:* This code is used by cardholder processors and cardholder Financial Institutions to verify that the card remains valid and that certain security procedures required by various card authorization systems have been met.

**Card Transaction Type Code:** 2 Positions – Entry Detail Record – Mandatory (POS, SHR, Returns, dishonored Returns, contested dishonored Returns)

*POS, SHR:* This code is used by card processors to identify the type of transaction, such as a purchase, cash advance, or reversal. Values for this field are assigned by the major card Organizations.

*Code Values:*

- 01 Purchase of goods or services
- 02 Cash
- 03 Return Reversal
- 11 Purchase Reversal
- 12 Cash Reversal
- 13 Return
- 21 Adjustment
- 99 Miscellaneous Transaction

**Change Code:** 3 Positions – Addenda Record – Mandatory (COR, refused COR)

A code used by the RDFI to describe the reason for Transmitting a Notification of Change. See Appendix Five (Notification of Change) for a complete listing of Change Codes.

**Check Digit:** 1 Position – Entry Detail Record, Corporate Entry Detail Record – Mandatory (all entries)

The Check Digit is computed using Modulus 10 as follows:

- (1) Multiply each digit in the Routing number by a weighting factor. The weighting factors for each digit are:

Position:	1	2	3	4	5	6	7	8
Weights:	3	7	1	3	7	1	3	7

- (2) Add the results of the eight multiplications.
- (3) Subtract the sum from the next highest multiple of 10. The result is the Check Digit.

Example:

Routing No.:	0	7	6	4	0	1	2	5
Multiply by:	3	7	1	3	7	1	3	7
Sum:	0	49	6	12	0	1	6	35 = 109

Check Digit = 1 (110 minus 109)

**Check Serial Number:** 15 Positions – Entry Detail Record – Optional (TRC, Returns, dishonored Returns, contested dishonored Returns); 15 Positions – Entry Detail Record – Mandatory (ARC, BOC, RCK, XCK); 9 Positions – Entry Detail Record – Mandatory (POP)

This field contains the Check Serial Number of a Check.

*ARC, BOC, POP:* This field must contain the Check Serial Number contained on the Eligible Source Document used for the Entry.

**Company Descriptive Date:** 6 Positions – Company/Batch Header Record – Optional (ACK, ADV, ARC, ATX, CCD, CIE, CTX, DNE, ENR, MTE, POP, POS, PPD, RCK, SHR, TEL, TRC, TRX, WEB, XCK, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

Except as otherwise noted below, the Originator establishes this field as the date it would like to see displayed to the Receiver for descriptive purposes. This field is never used to control timing of any computer or manual operation. It is solely for descriptive purposes. The RDFI should not assume any specific format. Examples of possible content in this field are “011311,” “01 11,” “Jan 13,” “JAN 11,” etc.

*MTE, POS, and SHR:* This date is the actual date the transfer was initiated by the Receiver, and formatted the same as the effective Entry date (YYMMDD).

*TRC:* This field contains the date established by the keeper (ODFI) for checks being truncated.

**Company Discretionary Data:** 20 Positions – Company/Batch Header Record – Optional (ACK, ADV, ARC, ATX, BOC, CCD, CIE, CTX, DNE, ENR, MTE, POP, POS, PPD, RCK, SHR, TEL, TRC, TRX,

WEB, XCK, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

This field in the Company/Batch Header Record allows Originators and/or ODFIs to include codes (one or more), of significance only to them, to enable specialized handling of all Entries in that batch. There is no standardized interpretation for the value of the field. This field must be returned intact on any Return Entry.

*CIE:* This field contains the Biller’s name.

*CTX:* The Originator’s bank account number may be placed in this field.

*POS:* The Originator (card acquirer) may place document reference numbers or other codes significant to it.

*TRC:* This field contains the city, state, and zip code of the keeper.

**Company Entry Description:** 10 Positions – Company/Batch Header Record – Mandatory (all batches)

The Originator establishes the value of this field to provide the Receiver with a description of the purpose of the Entry. For example, “Gas bill,” “Reg. Salary,” “ins. prem.,” “Soc. Sec.,” “DTC,” “Trade Pay,” “PURCHASE,” etc.

This field must contain the word “NONSETTLED” when the batch contains Entries that could not settle.

This field must contain the word “RECLAIM” when the batch contains Reclamation Entries.

This field must contain the words “RETURN FEE” when the batch contains Return Fee Entries

This field must contain the word “REVERSAL” when the batch contains Reversing Entries.

*ADV:* The Originator, i.e., the Originating ACH Operator, uses this field to describe to the institution receiving the ADV File the type of activity to which the accounting information relates.

*ENR:* This field must contain the word “AUTOENROLL” when the batch contains Automated Enrollment Entries.

*RCK:* This field must contain the word “REDEPCHECK”.

*TRX:* This field contains the routing number of the keeper.

*XCK:* This field must contain the words “NO CHECK”.

**Company Identification:** 10 Positions – Company/Batch Header Record – Mandatory (all batches except IAT); 10 Positions – Company/Batch Control Record – Required (all batches)

The Company Identification is an alphanumeric code used to identify an Originator. The Company Identification Field must be included on all Entries.

The Company ID may begin with an ANSI one-digit Identification Code Designator (ICD), followed by the identification number. The ANSI Identification Numbers and related Identification Code Designators (ICD) are:

IRS Employer Identification Number (EIN) “1.”

Data Universal Numbering Systems (DUNS) “3.”

User Assigned Number “9.”

*CIE:* This field contains the bill payment service provider’s identification number.

*IAT:* For IAT Entries, the Company Identification Field within the Company/Batch Control Record must contain the information found within positions 41-50 (Originator Identification) of the IAT Company/Batch Header Record.

*MTE (Credits):* The ODFI is the company/Originator.

**Company Name:** 16 Positions – Company/Batch Header Record – Mandatory (all batches except IAT)

This field identifies the source of the Entry and is used for descriptive purposes for the Receiver.

Except as otherwise noted below, this field must contain the name by which the Originator is known to and readily recognized by the Receiver of the Entry.

In a transaction in which the Originator of a debit Entry is not the payee of the transaction (the party to which payment is ultimately being directed), the Company Name field of the debit Entry must contain the name by which the payee is known to and readily recognized by the Receiver of the Entry. In a transaction in which the Originator of a credit Entry is not the payor of the transaction (the party from which payment is ultimately being directed), the Company Name field of the credit Entry must contain the name by which the payor is known to and readily recognized by the Receiver of the Entry.

For Return Fee Entries, this field must contain the same name of the Originator as identified in the Company Name field of the underlying Entry. For a Return Fee Entry based on the return of a Check, the Company Name field must contain the name of the payee of the Check.

*ADV:* The ACH Operator is both the Originator and the ODFI. The ACH Operator originating the ADV File identifies itself by name in this field.

*ARC, BOC:* This field identifies the payee of the Eligible Source Document or the payee name indicated on the bill or invoice.

*CIE:* This field contains the bill payment service provider’s name.

*MTE:* This field identifies the owner of the terminal where the transaction was initiated.

*POP, POS, SHR:* This field identifies the merchant with whom the Receiver initiated the transaction.

*RCK:* This field identifies the Originator of the RCK Entry, which is the original payee on the face of the Check.

*TRC:* This field identifies the name of the keeper.

*XCK:* This field must contain the words “CHECK DESTROYED” (left justified).

**Contested Dishonored Return Reason Code:** 3 Positions – Addenda Record – Mandatory (contested dishonored Returns)

A standard code used by the RDFI to describe the reason for contesting a Dishonored Return. See Appendix Four (Return Entries) for a complete listing of Contested Dishonored Return Reason Codes.

**Corrected Data:** 29 Positions – Addenda Record – Mandatory (all COR, refused COR entries except those related to IAT); 35 Positions – Addenda Record – Mandatory (COR entries related to IAT)

The Corrected Data field is used by the RDFI to relay corrected customer information (i.e., DFI Account Number, Transaction Code, etc.) back to the Originator of that Entry. The Corrected Data field in a Refused Notification of Change is copied from the Corrected Data field of the original Notification of Change.

**COR Trace Sequence Number:** 7 positions – Addenda Record – Mandatory (refused COR)

The last seven digits of the Trace Number contained in the original Notification of Change.

**Date of Death:** 6 Positions – Addenda Record – Optional (Returns)

The date of death is to be supplied on Entries being returned for reason of death (return reason codes R14 and R15).

**Date Original Entry Returned:** 6 positions – Addenda Record – Mandatory with R73, otherwise Optional (contested dishonored Returns)

This field contains the date the RDFI initiated the original Return. The Date Original Entry Returned is used when a Dishonored Return Entry is contested on the grounds that the original Return was untimely (R73).

**DFI Account Number:** 17 Positions – Entry Detail Record – Required (ACK, ADV, ARC, ATX, BOC, CCD, CIE, CTX, DNE, ENR, MTE, POP, POS, PPD, RCK, SHR, TEL, TRC, TRX, WEB, XCK, refused ACK, refused ATX, Returns, dishonored Returns,

contested dishonored Returns, COR, refused COR); 15 Positions – Entry Detail Record – Required (ADV)

The DFI Account Number is the RDFI's customer's account number. It is usually obtained from: (1) the "on-us" field of the MICR line of a Check; (2) account statement; (3) passbook; or (4) other source document provided by the RDFI that specifically designates the account number to be used for ACH purposes. A DFI that does not use the MICR line of its Checks/share drafts for ACH routing purposes (routing number and account number) is advised to print clearly the correct routing information on the face of the Check/share draft.

When obtaining information from the on-us field of the MICR line of a Check, left justify the information and enter only numbers (0 through 9) and hyphens (-). If information is obtained from another source, alpha characters may be included.

If the Receiver's account number contains more than 17 valid characters, the leftmost 17 characters are inserted in the DFI Account Number field and the remaining characters truncated, e.g., "012345678901234567" will appear "01234567890123456". If fewer than 17 characters, left justify and leave the unused spaces blank. Spaces within the Receiver account number must be ignored when the Entry is formatted, e.g., "0123 456789" would appear as "0123456789" and "0123-4 56789" would appear as "0123-456789." Exact formatting of the DFI Account Number Field is essential to ensure standard positioning of account number characters when Entries are received for processing by the RDFI.

*ADV:* Contains a 15 character DFI Account Number.

*ENR:* Contains information provided by the Federal Government Agency participating in the Automated Enrollment program.

**Discretionary Data:** 2 Positions – Entry Detail Record, Corporate Entry Detail Record – Optional (ACK, ADV, ARC, ATX, BOC, CCD, CIE, CTX, DNE, MTE, POP, PPD, RCK, XCK, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

This field in the Entry Detail Record allows ODFIs to include codes, of significance to them, to enable specialized handling of the Entry. There is no standardized interpretation for the value of this field. It can either be a single two-character code, or two distinct one-character codes, according to the needs of the ODFI and/or Originator involved. This field must be returned intact for any returned Entry.

*CCD, CTX:* When an Acknowledgment Entry is requested by an Originator, this field contains “AK”.

**Dishonored Return Reason Code:** Addenda Record; 3 Positions – Addenda Record – Mandatory (dishonored Return Entry); 2 Positions – Addenda Record – Mandatory (contested dishonored Return Entry)

A standard code used by the ODFI to describe the reason for dishonoring a Return Entry. In a Contested Dishonored Return Entry, this field contains only the numeric portion of the code. See Appendix Four (Return Entries) for a complete listing of Dishonored Return Reason Codes.

**Dishonored Return Settlement Date:** 3 Positions – Addenda Record – Mandatory (contested dishonored Returns)

The Dishonored Return Settlement Date is used in the Contested Dishonored Return format. Data for this field is obtained from the Settlement Date field of the Dishonored Return Company/Batch Header Record.

**Dishonored Return Trace Number:** 15 Positions – Addenda Record – Mandatory (contested dishonored Returns)

The Dishonored Return Trace Number is used in the Contested Dishonored Return format. The data for this field is obtained from positions 80 - 94 of the Addenda Record or positions 80 - 94 of the Entry Detail Record of the Dishonored Return Entry.

**Document Reference Number:** 11 Positions – Entry Detail Record – Required (SHR)

This field further defines the transaction in the event of a Receiver’s inquiry. An example is an Electronic sequence number.

**Effective Entry Date:** 6 Positions – Company/Batch Header Record – Required (all batches)

The Effective Entry Date is the date specified by the Originator on which it intends a batch of Entries to be settled. For credit Entries, the Effective Entry Date must be either one or two Banking Days following the Banking Day of processing by the Originating ACH Operator (the processing date). For debit Entries, the Effective Entry Date must be one Banking Day following the processing date.

Batches of Entries containing an Effective Entry Date beyond the designated number of days allowed are Rejected by the ACH Operator and returned to the ODFI. If this field is blank or zero, or partially blank or partially non-numeric, or contains an incomplete date, day numbers higher than 31 or month numbers higher than 12, the Originating ACH Operator inserts the Banking Day after the processing date as the Effective Entry Date.

*ENR:* For Automated Enrollment Entries, this field must be space filled.

*Return Entries, COR, TRC, TRX:* The ACH Operator does not edit this field.

The scheduled Settlement Date is inserted by the Receiving ACH Operator. *See the definition of “Settlement Date” in this Appendix Three.*

**Entry/Addenda Count:** 6 Positions – Company/Batch Control Record – Mandatory (all batches); 8 Positions – File Control Record – Mandatory (all Files)

This count is a tally of each Entry Detail Record and each Addenda Record processed, within either the batch or File, as appropriate.



**Entry Detail Sequence Number:** 7 Positions – Addenda Record – Mandatory (ACK, ATX, CCD, CIE, CTX, DNE, ENR, IAT, PPD, TRX, WEB, IAT Returns)

This field contains the ascending sequence number section of the Entry Detail or Corporate Entry Detail Record's trace number. This number is the same as the last seven digits of the trace number of the related Entry Detail Record or Corporate Entry Detail Record.

**Entry Hash:** 10 Positions – Company/Batch Control Record and File Control Record – Mandatory (all Files)

The Receiving DFI Identification in each Entry Detail Record is hashed to provide a check against inadvertent alteration of data contents due to hardware failure or program error. (NOTE: Addenda Records are not hashed.)

*Company/Batch Control Record:* The Entry Hash is the sum of all of the Receiving DFI Identification fields contained within the Entry Detail Records in a batch. The Receiving DFI Identification Field contains the 8-digit routing number of the RDFI. The hash is the sum of the 8-digit routing numbers.

Example #1:

05600507 + 05140225 + 11400065 = 22140797.  
This sum, 22140797, is placed within the Entry Hash Field.

If the sum exceeds 10 characters, the Entry Hash field must be populated with the rightmost 10 characters.

Example #2:

If the sum of the Receiving DFI Identification fields within a batch is 123456789012, the Entry Hash field would be populated with 3456789012.

*File Control Record:* The Entry Hash is the sum of the Entry Hash fields contained within the Company/Batch Control Records of the File. If the sum exceeds 10 characters, the field must be populated with the rightmost 10 characters (see example above).

**File Creation Date:** 6 Positions – File Header Record – Mandatory (all Files)

The File Creation Date is expressed in a “YYMMDD” format. The File Creation Date is the date on which the File is prepared by an ODFI (ACH input Files) or the date (exchange date) on which a File is Transmitted from ACH Operator to ACH Operator, or from ACH Operator to RDFIs (ACH output Files).

**File Creation Time:** 4 Positions – File Header Record – Optional (all Files)

The File Creation Time is expressed in an “HHMM” (24 hour clock) format.

**File Identification:** 5 Positions – Entry Detail Record – Optional (ADV)

This field contains the File Creation Date and File ID Modifier associated with the Automated Accounting Advice Entry.

**File ID Modifier:** 1 Position – File Header Record – Mandatory (all Files)

The File ID Modifier is provided in the File Header Record to permit multiple Files created on the same date and between the same participants to be distinguished. Only upper case A-Z and numeric 0-9 are permitted.

*ADV:* The number in this field reflects, in chronological order, the number of advices given in a particular cycle. The highest numbered advice is the last advice of the cycle.

**Foreign Correspondent Bank Branch Country Code:** 3 positions – Addenda Record – Mandatory (IAT)

This field contains a 2-character code as approved by the International Organization for Standardization (ISO) used to identify the country in which the branch of the Foreign Correspondent Bank is located.



**Foreign Correspondent Bank Identification Number:** 34 Positions – Addenda Record – Mandatory (IAT)

This field contains the bank identification number (i.e., the National Clearing System Number, BIC Code, or IBAN) of the Foreign Correspondent Bank.

**Foreign Correspondent Bank Identification Number Qualifier:** 2 Positions – Addenda Record – Mandatory (IAT)

This field contains a 2-digit code that identifies the numbering scheme used in the Foreign Correspondent Bank Identification Number field. Code values for this field are:

- 01 National Clearing System Number  
(e.g., U.S. Routing Transit Number);
- 02 BIC Code; or
- 03 IBAN

**Foreign Correspondent Bank Name:** 35 Positions – Addenda Record – Mandatory (IAT)

This field identifies the name of the Foreign Correspondent Bank.

**Foreign Exchange Indicator:** 2 Positions – Company/Batch Header Record – Mandatory (IAT, Returns, COR)

This field contains a code used to indicate the foreign exchange conversion methodology applied to an IAT Entry. Use may be dependent on the particular exchange services offered by a Gateway Operator. Code values for this field are:

- “FV” *Fixed-to-Variable* – Entry is originated in a fixed-value amount and is to be received in a variable amount resulting from the execution of the foreign exchange conversion.
- “VF” *Variable-to-Fixed* – Entry is originated in a variable-value amount based on a specific foreign exchange rate for conversion to a fixed-value amount in which the Entry is to be received.

- “FF” *Fixed-to-Fixed* – Entry is originated in a fixed-value amount and is to be received in the same fixed-value amount in the same currency denomination. There is no foreign exchange conversion for Entries Transmitted using this code. For Entries originated in a fixed-value amount, the Foreign Exchange Reference Field will be space filled.

**Foreign Exchange Reference:** 15 Positions – Company/Batch Header Record – Required (IAT, Returns, COR)

This field contains either the foreign exchange rate used to execute the foreign exchange conversion of an IAT Entry or another reference to the foreign exchange transaction. Content is defined by the Foreign Exchange Reference Indicator Field.

If the Foreign Exchange Indicator Field contains “FF”, this field will always be space filled.

**Foreign Exchange Reference Indicator:** 1 Position – Company/Batch Header Record – Required (IAT, Returns, COR)

This field contains a code used to indicate the content of the Foreign Exchange Reference Field. Code values for this field are:

- 1 - Foreign Exchange Rate;
- 2 - Foreign Exchange Reference Number; or
- 3 - Space Filled.

**Foreign Payment Amount:** 18 Positions – Addenda Record – Required (IAT, Returns)

*For Inbound IAT Entries*, this field contains the amount for which the Entry was originated by the Foreign ODFI in the currency denomination expressed in the Originating Currency Code Field of the Company/Batch Header Record. *For Inbound IAT Entries returned by a U.S. RDFI*, this field is copied from the original Entry Detail Record to the Entry Detail Record for IAT Returns.

*For Outbound IAT Entries* originated using a Foreign Exchange Indicator of “FV” (fixed-to-variable), this field is zero-filled. *For Outbound IAT Entries using a Foreign Exchange Indicator*

of “VF” (*variable-to-fixed*) or “FF” (*fixed-to-fixed*), this field contains the amount for which the Entry is to be received by the Foreign Receiver in the currency denomination expressed in the ISO Destination Currency Code Field of the Company/Batch Header Record. *For Outbound IAT Entries returned by a U.S. Gateway Operator*, this field contains the Entry amount returned to the original ODFI. This amount will be different from the amount for which the original Entry was originated if the same rate was not used for both the forward and Return Entry foreign exchange conversions.

**Foreign Receiver’s Account Number/DFI Account Number:** 35 Positions – Entry Detail Record – Mandatory (IAT)

For Inbound IAT Entries, this field contains the U.S. Receiver’s account number.

For Outbound IAT Entries, this field contains the foreign Receiver’s account number.

**Foreign Trace Number:** 22 Positions – Addenda Record – Optional (IAT)

For Inbound IAT Entries, this field contains the trace number assigned to the Entry in the originating national payments system.

**Format Code:** 1 Position – File Header Record – Mandatory (all Files)

This field must contain a value of “1.”

**Gateway Operator OFAC Screening Indicator:** 1 Position – Entry Detail Record – Optional (IAT)

This field indicates the results of a Gateway Operator screen for OFAC compliance. A value of “0” indicates that the Gateway Operator has not found a potential blocked party, as identified by OFAC on its list of Specially Designated Nationals (“SDN list”). A value of “1” indicates the potential presence of a blocked party. This field must be space filled if no screening has been conducted.

**GO Identification/Originating DFI Identification:** 8 positions – Company/Batch Header Record – Mandatory (IAT, Returns, COR)

For Inbound IAT Entries, this field contains the routing number of the U.S. Gateway Operator.

For Outbound IAT Entries, this field contains the standard routing number, as assigned by Accuity, that identifies the U.S. ODFI initiating the Entry.

**GO Identification/Receiving DFI Identification:** 8 Positions – Entry Detail Record – Mandatory (IAT, Returns, COR)

For Outbound IAT Entries, this field contains the routing number of the U.S. Gateway Operator. For Inbound IAT Entries, this field contains the standard routing number, as assigned by Accuity, that identifies the U.S. RDFI at which the Receiver maintains his account.

**IAT Indicator:** 16 positions – Company/Batch Header Record – Optional (IAT, Returns); 16 positions – Company/Batch Header Record – Mandatory (COR entries related to IAT)

For forward IAT Entries, this field is left blank. For Notifications of Change related to IAT Entries, this field must contain the value “IATCOR.”

**Identification Number:** 15 Positions – Entry Detail Record/Corporate Entry Detail Record – Optional (CCD, CTX, ENR, TRX, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

This field may be used by the Originator to insert its own number for tracing purposes.

**ENR:** For Federal Government automated enrollment Entries, this field is space filled.

**Immediate Destination:** 10 Positions – File Header Record – Mandatory (all Files)

This field contains the routing number of the ACH Operator or Receiving Point to which the File is being Transmitted. The 10 character field begins with a blank in the first position, followed by the four digit Federal Reserve Routing Symbol, the four digit ABA Institution Identifier, and the Check Digit (bTTTTAAAC).

**Immediate Destination Name:** 23 Positions – File Header Record – Optional (all Files)

This field contains the name of the ACH Operator or Receiving Point for which that File is destined.

**Immediate Origin:** 10 Positions – File Header Record – Mandatory (all Files)

This field contains the routing number of the ACH Operator or Sending Point that is Transmitting the File. The 10 character field begins with a blank in the first position, followed by the four digit Federal Reserve Routing Symbol, the four digit ABA Institution Identifier, and the Check Digit (bTTTTAAAC).

NOTE: This field may also be mutually defined between the ODFI and Originator. For example, the ODFI may ask its Originator to put its tax identification number in this field; however, the field must contain the routing number of the Sending Point when the File is Transmitted to the ACH Operator.

**Immediate Origin Name:** 23 Positions – File Header Record – Optional (all Files)

This field contains the name of the ACH Operator or Sending Point that is Transmitting the File.

**Individual Card Account Number:** 22 Positions – Entry Detail Record – Required (SHR)

The Individual Card Account Number is the number assigned by the card issuer and is obtained from the card itself.

**Individual Identification Number:** 15 Positions – Entry Detail Record – Optional (DNE, POS, PPD, TEL, WEB, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR); 22 Positions – Entry Detail Record – Mandatory (CIE, MTE)

Except as otherwise noted below, this field contains the accounting number by which the Receiver is known to the Originator. It is included for further identification and for descriptive purposes. The RDFI should assume no specific format to be present (e.g., presence or absence of dashes), but can assume that the field is pre-edited so that it is suitable for description as is (including blanks in unused positions).

*CIE:* This field contains the accounting number by which the Originator (payor) is known to the Receiver (payee). It is used by the Receiver to

update accounts receivable Records. It should be the number shown on an invoice, statement, billhead, notice or other communication as the reference. Numbers may be policy, customer, invoice, meter, sequence and/or alphanumeric combinations. Field 8, rather than Field 7, of the Entry Detail Record is used for the Individual Identification Number.

*MTE:* Field 8, rather than Field 7, of the Entry Detail Record is used for the Individual Identification Number.

*PPD:* For a Return Fee Entry related to an ARC, BOC, POP, or RCK Entry or to an item that was eligible to be converted to a debit Entry but was not converted, this field must contain the check serial number contained within the ARC, BOC, POP, or RCK Entry or item.

**Individual Name:** 22 positions – Entry Detail Record – Mandatory (TEL, WEB, and Returns, dishonored Returns, and contested dishonored Returns for TEL and WEB); 22 Positions – Entry Detail Record – Required (ADV, DNE, POS, PPD, RCK, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR); 22 Positions – Entry Detail Record – Optional (ARC, BOC, POP); 15 Positions – Entry Detail Record – Required (CIE); 15 Positions – Entry Detail Record – Mandatory (MTE)

Except as noted below, this field is entered by the Originator to provide additional identification of the Receiver and may be helpful in identifying returned Entries.

*ADV:* This field contains the name associated with the Advice Routing Number in positions 40-48 of the Entry Detail Record.

*ARC, BOC, POP:* This field may contain the Receiver's name or a reference number, identification number, or code that the merchant needs to identify the particular transaction or customer.

*CIE:* This field is entered by the ODFI to provide additional identification for the Receiver and may be helpful in identifying returned Entries. Field 7, rather than Field 8, of the Entry Detail Record is used for the Individual Name.

*MTE*: Field 7, rather than Field 8, of the Entry Detail Record is used for the Individual Name.

**ISO Destination Country Code:** 2 Positions – Company/Batch Header Record – Mandatory (IAT, Returns, COR)

This field contains the two-character code, as approved by the International Organization for Standardization (ISO), to identify the country in which the Entry is to be received.

**ISO Destination Currency Code:** 3 Positions – Company/Batch Header Record – Mandatory (IAT, Returns, COR)

This field contains the three-character code, as approved by the International Organization for Standardization (ISO), to identify the currency denomination in which the Entry is to be received.

**ISO Originating Currency Code:** 3 Positions – Company/Batch Header Record – Mandatory (IAT, Returns, COR)

This field contains the three-character code, as approved by the International Organization for Standardization (ISO), to identify the currency denomination in which the Entry was first originated.

**Item Research Number:** 16 Positions – Entry Detail Record – Required (TRC, XCK)

This field contains the MICR locator number for Check item research.

**Item Type Indicator:** 2 Positions – Entry Detail Record – Optional (TRC, TRX)

This field indicates the type of items being truncated.

*Code Values:*

01 NACS Truncated Items

**Julian Date on Which Advice is Created:** 3 positions – Entry Detail Record – Mandatory (ADV)

This field contains the Julian date on which an Automated Accounting Advice is created.

**Message Authentication Code (MAC):** 19 Positions – Company/Batch Control Record – Optional (all batches)

The MAC is an eight character code derived from a special key used in conjunction with the DES algorithm. The MAC is used to validate the authenticity of ACH Entries. The DES algorithm and key message standards must be in accordance with standards adopted by the American National Standards Institute. The remaining eleven characters of this field are blank.

**Network Identification Code:** 3 Positions – Addenda Record – Optional (MTE)

This field uniquely identifies an ATM network and allows for processing of MTE transactions between DFIs belonging to different networks.

**Number of Addenda Records:** 4 Positions – Corporate Entry Detail Record/Entry Detail Record – Mandatory (ATX, CTX, ENR, IAT, TRX, COR (IAT entries), refused ATX); 4 Positions – Corporate Entry Detail Record – Required (COR (except IAT), refused COR)

*CTX*: This number represents the number of Addenda Records associated with the Corporate Entry Detail Record. This field will be zero filled if Field 12 (Addenda Record Indicator Value) of the related Corporate Entry Detail Record contains a value of “0.”

*ATX, ENR, IAT, TRX*: This number represents the number of Addenda Records associated with the Entry Detail Record.

**Original Entry Trace Number:** 15 Positions – Addenda Record – Mandatory (Returns, dishonored Returns, contested dishonored Returns, COR, refused COR, ACK, refused ACK, ATX, refused ATX)

This field contains the Trace Number as originally included on the forward Entry or Prenotification. The RDFI must include the Original Entry Trace Number in the Addenda Record of an Entry being returned to an ODFI, in the Addenda Record of an NOC, within an Acknowledgment Entry, or with an RDFI request for a copy of an authorization.

**Original Forward Entry Payment Amount:** 10 Positions – Addenda Record – Required (IAT Returns)

Outbound IAT Entries originated by a U.S. ODFI might be returned by the Gateway Operator for a U.S. dollar value that differs from the original Amount due to foreign exchange conversion. In cases when a different rate is used for the forward and return foreign exchange conversion execution, the value contained in this field will not equal the value conveyed in the Amount Field of the Entry Detail Record for Returns, which reflects the value of the funds actually returned.

**Original Receiving DFI Identification:** 8 Positions – Addenda Record – Required (Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

This field contains the Receiving DFI identification as originally included on the forward Entry or Prenotification that the RDFI is returning or correcting. This field must be included in the Addenda Record for an Entry being returned to an ODFI, or within the Addenda Record accompanying a Notification of Change.

**Original Settlement Date:** 3 Positions – Addenda Record – Mandatory with R73, otherwise Optional (contested dishonored Returns)

The original Settlement Date is used when a Dishonored Return Entry is contested on the grounds that the original Return was untimely (R73). It is the Settlement Date of the original Entry.

**Originating DFI Branch Country Code:** 3 Positions – Addenda Record – Mandatory (IAT)

This field contains a 2-character code, as approved by the International Organization for Standardization (ISO), to identify the country in which the branch of the bank that originated the Entry is located. This code must correspond to the country in which the bank branch identified within the Originating DFI Identification field of the Fourth IAT Addenda Record is located.

**Originating DFI Identification:** 8 Positions – Company/Batch Header Record – Mandatory (all batches except IAT); 8 Positions – Company/Batch Control Record – Mandatory (all batches); 34 Positions – Addenda Record – Mandatory (IAT)

This field contains the routing number of the DFI originating the Entries within the batch.

*IAT:*

- For Inbound IAT Entries, the Originating DFI Identification Field within the Fourth IAT Addenda Record must contain the National Clearing System Number of the foreign financial institution providing funding for the payment transaction.
- For Outbound IAT Entries, the Originating DFI Identification Field within the Fourth IAT Addenda Record must contain the routing number of the U.S. ODFI.
- For IAT Entries, the Originating DFI Identification Field within the Company/Batch Control Record must contain the information found within positions 80-87 (GO/Originating DFI Identification) of the IAT Company/Batch Header Record.

**Originating DFI Identification Number Qualifier:** 2 Positions – Addenda Record – Mandatory (IAT)

This field contains a 2-digit code that identifies the numbering scheme used in the Originating DFI Identification Number field of the Fourth IAT Addenda Record. Code values for this field are:

- 01 National Clearing System Number;
- 02 BIC Code; or
- 03 IBAN

**Originating DFI Name:** 35 Positions – Addenda Record – Mandatory (IAT)

This field contains the name of the ODFI.

- For Inbound IAT Entries, the Originating DFI Name Field within the Fourth IAT Addenda Record must contain the name of



the foreign financial institution initiating the payment transaction, as identified within the Originating DFI Identification field of the Fourth IAT Addenda Record.

- For Outbound IAT Entries, this field must contain the name of the U.S. ODFI.

**Originator City and State/Province:** 35 Positions – Addenda Record – Mandatory (IAT)

This field contains the city and, if applicable, the state or province of the Originator. An asterisk (“\*”) must be used as the delimiter between the data elements, and the backslash (“\”) must be used as the terminator following the last data element.

**Originator Country and Postal Code:** 35 Positions – Addenda Record – Mandatory (IAT)

This field contains the country and postal code of the Originator. An asterisk (“\*”) must be used as the delimiter between the data elements, and the backslash (“\”) must be used as the terminator following the last data element.

**Originator Identification:** 10 Positions – Company/Batch Header Record – Mandatory (IAT, Returns, COR)

The Originator Identification is an alphanumeric code used to uniquely identify an Originator. For an Originator that is not a natural Person, this field must contain the IRS Taxpayer Identification Number (TIN) of the Originator identified in the Originator Name Field. For an Originator that is not a natural Person and is not established or organized under the laws of a State or the United States, this field must contain the account number belonging to the Originator (as identified in the Originator Name field) at the foreign financial institution. If this number exceeds 9 characters, this field must contain the last 9 characters of the account number belonging to the Originator at the foreign financial institution. If the foreign account number contains 9 or fewer characters, the entire account number must be utilized.

The Originator Identification may be preceded by a one-digit alphanumeric code, as established between the ODFI and the Originator, for further

identification of the Originator to the ODFI. When used, this code must appear in the first position of this field, followed by the Originator Identification, as defined above.

When the ODFI has a contractual relationship with a Third-Party Sender rather than the Originator itself, the value of this field may identify either the Originator or the Third-Party Sender.

**Originator Name:** 35 Positions – Addenda Record – Mandatory (IAT)

This field contains the name of the Originator of the transaction.

**Originator Status Code:** 1 Position – Company/Batch Header Record – Mandatory (all batches)

This code refers to the ODFI initiating the Entry.

*Code Values:*

- 0 ADV File prepared by an ACH Operator.
- 1 This code identifies the Originator as a depository financial institution.
- 2 This code identifies the Originator as a Federal Government entity or agency.

*ADV:* This field must contain “0”.

**Originator Street Address:** 35 Positions – Addenda Record – Mandatory (IAT)

This field contains the physical street address of the Originator.

**Payment Related Information:** 80 Positions – Addenda Record – Optional (ACK, ATX, CCD, CIE, CTX, DNE, ENR, IAT, PPD, TRX, WEB)

In the Addenda Records of ACK, ATX, CCD, CIE, ENR, IAT, PPD, and WEB Entries, an asterisk (“\*”) must be used as the delimiter between the data elements, and the backslash (“\”) must be used as the terminator between the data segments.

*ACK, ATX:* This field contains the ANSI ASC X12 REF (Reference) data segment. This REF segment is used to convey the Identification Number



contained within the original CCD or CTX Entry, and/or other information of significance to the Originator.

*CCD, PPD, WEB:* Addenda Records contain payment related ANSI ASC X12 data segments or NACHA endorsed banking conventions (i.e., Tax Payment, Third-Party Tax Payments, Child Support, or Electronic Dealer Drafting).

*CIE:* This field contains payment related ANSI ASC X12 data segments to further identify the payment or Transmit additional remittance information.

For Example:

N1\*BT\*JohnDoe\N3\*12MainStreet\N4\*21070\

*CTX:* This field contains information formatted in accordance with the syntax of ANSI ASC X12.5 and X12.6, an ASC X12 transaction set containing a BPR or BPS data segment, or payment related UN/EDIFACT syntax.

ANSI ASC X12.5 (“Interchange Control Structure”) means the standard to define the control structures for the electronic interchange of business transactions encoded in ASC X12-based syntax. This standard provides the interchange envelope of a header and trailer for the electronic interchange through a data transmission, a structure to acknowledge the receipt and processing of this envelope, and optional, interchange-level service request structures.

ANSI ASC X12.6 (“Application Control Structure”) means the standard used to define the structure of business transactions for computer-to-computer interchange. This structure is expressed using a symbolic representation of X12 data in terms of both the design and use of X12 structures, independent of the physical representation (e.g., character set encoding).

BPR or BPS Data Segment (“Beginning Segment for Payment Order/Remittance Advice”) means the beginning segment for the payment order/remittance advice used in ASC X12-based syntax to indicate the beginning of a payment-related transaction set that contains the necessary banking information to process the transaction.

*DNE:* Addenda Records contains the following NACHA endorsed banking convention starting in position 04:

DATE OF DEATH\*MMDDYY\*CUSTOMERSSN\*  
#####\*AMOUNT\*\$\$\$\$.cc\

The date of death always appears in positions 18-23. If the Social Security Number (SSN) is not available, positions 38-46 contain zeros. The amount of the expected beneficiary payment always begins in position 55.

*ENR:* This field contains the following NACHA endorsed banking convention:

All information in this field pertains to the account holder on whose behalf the Automated Enrollment Entry is initiated.

*Transaction Code* – This field contains the Transaction Code of the account holder’s account. This field contains “22” (Demand Credit), “27” (Demand Debit), “32” (Savings Credit), or “37” (Savings Debit). (2 positions)

*Receiving DFI Identification Number* -- This field contains the routing number used to identify the DFI at which the account holder maintains its account. (8 positions)

*Check Digit* – This field contains the check digit pertaining to the routing number for the DFI at which the account holder maintains its account. (1 position)

*DFI Account Number* – This field contains the account holder’s account number. (1 - 17 positions)

*Individual Identification Number/Identification Number* – For automated enrollments initiated on behalf of consumers, this field contains the consumer’s Social Security Number. For automated enrollments initiated on behalf of companies, this field contains the company’s Taxpayer Identification Number. (9 positions)

*Individual Name (Surname)/Company Name* – This field contains the consumer’s surname or the first fifteen characters of the Company Name. (1 - 15 positions)

*Individual Name (First Name)/Company Name* – This field contains the consumer's first name or the next seven characters of the Company Name. (1 - 7 positions).

*Representative Payee Indicator/Enrollee Classification Code* – For enrollments for Federal Government benefit payments, this field contains “0” (zero) meaning “no” or “1” (one) meaning “yes” to denote whether the authorization is being initiated by someone other than the named beneficiary.

For all other enrollments, this field contains “A” to indicate that the enrollee is a consumer, or “B” to indicate that the enrollee is a company. (1 position)

For Example:

22\*12200004\*3\*123987654321\*77777777\*DOE\*JOHN\*0\

22\*12200004\*3\*987654321123\*876543210\*ABCCOMPANY\*B\

27\*12200004\*3\*987654321123\*876543210\*ABCELECTRONIC\*INDUSTRIE\*B\

*IAT:* This field contains 80 characters of payment related information. (Note: A maximum of two optional Addenda Records may be used for IAT remittance information.)

When the Transaction Type Code Field within the First IAT Addenda Record contains ARC, BOC, or RCK, this field must contain the Check Serial Number starting in position 04:

CHECK SERIAL NUMBER\

For example: 3349809002\

When the Transaction Type Code Field within the First IAT Addenda Record contains POP, this field must contain the following NACHA-endorsed banking convention starting in position 04:

CHECK SERIAL NUMBER (MAXIMUM OF 9 CHARACTERS)\*TERMINAL CITY (MAXIMUM OF 4 CHARACTERS)\*TERMINAL STATE/FOREIGN COUNTRY (2 CHARACTERS)\

For example: 123456789\*PARI\*FR\

When the Transaction Type Code Field within the First IAT Addenda Record contains MTE, POS, or SHR, this field must contain the following NACHA-endorsed banking convention starting in position 04:

TERMINAL IDENTIFICATION CODE (MAXIMUM OF 6 CHARACTERS)\*TERMINAL LOCATION (MAXIMUM OF 27 CHARACTERS)\*TERMINAL CITY (MAXIMUM OF 15 CHARACTERS)\*TERMINAL STATE/FOREIGN COUNTRY (2 CHARACTERS)\

For example:

200509\*321 EAST MARKET STREET\*ANYTOWN\*VA\

367802\*10TH & VINE STREETS\*LONDON\*UK\

*TRX:* This field contains information formatted in accordance with National Association for Check Safekeeping syntax.

**Payment Type Code:** 2 Positions – Entry Detail Record – Required (WEB, Returns, dishonored Returns, contested dishonored Returns); Optional (TEL)

This field is used to indicate whether an Entry is a recurring or Single-Entry payment.

*TEL:* For a recurring TEL Entry, this field must contain the value “R.” For a Single-Entry TEL Entry, this field must either contain the value “S” or be space-filled.

*WEB:* For a recurring WEB Entry, this field must contain the value “R.” For a Single-Entry WEB Entry, this field must contain the value “S”.

**Priority Code:** 2 Positions – File Header Record – Required (all Files)

This field must contain a value of ‘01.’

**Process Control Field:** 6 Positions – Entry Detail Record – Required (TRC, XCK)

This field contains an optional code, as obtained from a Check or sharedraft, which generally identifies the document type. The field is usually

located to the right of the account number in the on-us field of the MICR line and is sometimes called a transaction code.

**Receiver City and State/Province:** 35 Positions – Addenda Record – Mandatory (IAT)

This field contains the city and, if applicable, the state or province of the Receiver. An asterisk (“\*”) must be used as the delimiter between the data elements, and the backslash (“\”) must be used as the terminator following the last data element.

**Receiver Country and Postal Code:** 35 Positions – Addenda Record – Mandatory (IAT)

This field contains the country and postal code of the Receiver. An asterisk (“\*”) must be used as the delimiter between the data elements, and the backslash (“\”) must be used as the terminator following the last data element.

**Receiver Identification Number:** 15 Positions – Addenda Record – Optional (IAT)

This field may be used by the Originator to insert its own number for tracing purposes.

**Receiver Street Address:** 35 Positions – Addenda Record – Mandatory (IAT)

This field contains the physical street address of the Receiver.

**Receiving Company Name:** 22 positions – Entry Detail Record – Required (ACK, CCD, refused ACK, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR); 22 Positions – Entry Detail Record – Optional (ARC, BOC, POP)

This field is entered by the Originator to provide additional identification of the Receiver and may be helpful in identifying Return Entries.

*ARC, BOC, POP:* This field may contain the Receiver’s name or a reference number, identification number, or code that the merchant needs to identify the particular transaction or customer.

**Receiving Company Name/ID Number:** 16 Positions – Corporate Entry Detail Record – Required (ATX, CTX, ENR, TRX, refused ATX, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

This field identifies the Receiver and can be used for descriptive purposes. The field may contain the Receiving Company’s name or an identifying number for that Company.

*ENR:* This field contains the name of the Federal Government agency participating in the Automated Enrollment program. (Federal Government Agencies will provide this information to DFIs initiating Automated Enrollment Entries.)

**Receiving Company Name/Individual Name:** 35 Positions – Addenda Record – Mandatory (IAT)

This field identifies the Receiver of the transaction.

**Receiving DFI Branch Country Code:** 3 Positions – Addenda Record – Mandatory (IAT)

This field contains a 2-character code, as approved by the International Organization for Standardization (ISO), to identify the country in which the branch of the bank that receives the Entry is located.

**Receiving DFI Identification:** 8 Positions – Entry Detail Record – Mandatory (ACK, ADV, ARC, ATX, BOC, CCD, CIE, CTX, DNE, ENR, MTE, POP, POS, PPD, RCK, SHR, TEL, TRC, TRX, WEB, XCK, refused ACK, refused ATX, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR); 34 positions – Addenda Record – Mandatory (IAT)

The standard routing number as assigned by Accuity (with Check Digit) is used to identify the DFI in which the Receiver maintains his account or a routing number assigned to a Federal Government agency by the Federal Reserve. For IAT Entries, this field contains the bank identification number of the DFI at which the Receiver maintains his account.

*ENR:* This field contains the routing number assigned to a Federal Government agency for the purpose of the automated enrollment process. Any Entry with a dollar value directed to that routing

number in error is not subject to compensation rights as provided in these Rules.

**Receiving DFI Identification Number Qualifier:**  
2 Positions – Addenda Record – Mandatory (IAT)

This field contains a 2-digit code that identifies the numbering scheme used in the Receiving DFI Identification Number field. Code values for this field are:

- 01 National Clearing System Number;
- 02 BIC Code; or
- 03 IBAN.

**Receiving DFI Name:** 35 Positions – Addenda Record – Mandatory (IAT)

This field contains the name of the Receiving Depository Financial Institution.

**Record Size:** 3 Positions – File Header Record – Mandatory (all Files)

The Record Size Field indicates the number of characters contained in each Record. The value “094” must be used.

**Record Type Code:** 1 Position – All Record Formats – Mandatory (all Records)

*Code Values:*

- 1 File Header Record Format
- 5 Company/Batch Header Record Format
- 6 Entry Detail Record Format (Consumer and Corporate)
- 7 Addenda Record Formats
- 8 Company/Batch Control Record Format
- 9 File Control Record Format

**Reference Code:** 8 Positions – File Header Record – Optional (all Files)

This field is reserved for information pertinent to the Originator.

*ADV:* This field must contain “ADV FILE”.

**Reference Information #1:** 7 Positions – Addenda Record – Optional (POS, SHR)

This field may be used for additional reference numbers, identification numbers, or codes that the merchant needs to identify the particular transaction or customer.

**Reference Information #2:** 3 Positions – Addenda Record – Optional (POS, SHR)

This field may be used for additional reference numbers, identification numbers, or codes that the merchant needs to identify the particular transaction or customer.

**Refused Acknowledgment Code:** 2 positions – Corporate Entry Detail Record, Entry Detail Record – Mandatory (Refused ACK, Refused ATX)

This field contains a standard code used by an ODFI to describe the reason for refusing an acknowledgment Entry.

**Refused COR Code:** 3 Positions – Addenda Record – Mandatory (Refused COR)

This field contains a standard code used by the RDFI to designate the reason for refusing a Notification of Change Entry. See Appendix Five (Notification of Change) for a complete listing of Change Codes.

**Return Reason Code:** 3 Positions – Addenda Record – Mandatory (Returns); 2 Positions – Addenda Record – Mandatory (dishonored Returns, contested dishonored Returns)

This field contains a standard code used by an ACH Operator or RDFI to describe the reason for returning an Entry. In a Dishonored Return Entry and Contested Dishonored Return Entry, only the numeric portion of the code is used. See Appendix Four (Return Entries) for a complete listing of Return Reason Codes.

**Return Settlement Date:** 3 Positions – Addenda Record – Mandatory (dishonored Returns, contested dishonored Returns)

The Return Settlement Date is used in the Dishonored Return format. The data for this field

is obtained from the Settlement Date field in the Company/Batch Header of the Return Entry.

**Return Trace Number:** 15 Positions – Addenda Record – Mandatory (dishonored Returns, contested dishonored Returns)

The Return Trace Number is used in the Dishonored Return format. The data for this field is obtained from positions 80 - 94 of the Addenda Record or positions 80 -94 of the Entry Detail Record of the Return Entry.

**Routing Number of ACH Operator:** 8 positions – Entry Detail Record – Mandatory (ADV)

This field contains the routing number of the ACH Operator that is Transmitting the File.

**Secondary OFAC Screening Indicator:** 1 Position – Entry Detail Record – Optional (IAT)

This field indicates the results of a Third-Party Service Provider screen for OFAC compliance. A value of “0” indicates that the Third-Party Service Provider has not found a potential blocked party, as identified by OFAC on its list of Specially Designated Nationals (“SDN list”). A value of “1” indicates the potential presence of a blocked party. This field must be space filled if no screening has been conducted.

**Sequence Number Within Batch:** 4 positions – Entry Detail Record – Mandatory (ADV)

This field contains the sequence number of an Entry Detail Record within a batch of Entries.

**Service Class Code:** 3 Positions – Company/Batch Header Record and Company/Batch Control Record – Mandatory (all batches)

The Service Class Code (BAI Specifications) identifies the general classification of dollar Entries to be exchanged. ACH Entries are assigned Service Class Code series 200-299.

*Code Values:*

200 ACH Entries Mixed Debits and Credits

220 ACH Credits Only

225 ACH Debits Only

280 ACH Automated Accounting Advices

**Settlement Date:** 3 Positions – Company/Batch Header Record – Inserted by Receiving ACH Operator (all batches)

The Settlement Date (a 3-digit Julian date) for a batch of Entries is inserted by the Receiving ACH Operator. This is the date on which the Participating DFI or its correspondent is scheduled to be debited or credited by the Federal Reserve.

The Settlement Date inserted by the Receiving ACH Operator is the same as the Effective Entry Date designated by the Originator unless the Effective Entry Date is the same as or earlier than the Originating ACH Operator’s processing date (the Banking Day of processing). In these cases, the scheduled Settlement Date will be the Banking Day following the Banking Day of processing.

Returns, dishonored Returns, and contested dishonored Returns are settled by the ACH Operator no earlier than the Effective Entry Date contained within the original Entry, as it appears in the Return Entry Company/Batch Header Record. The return of an Entry that contains an invalid or stale Effective Entry Date will be settled by the ACH Operator at the earliest opportunity (i.e., the Banking Day of processing or the next Banking Day).

Notifications of Change and TRC/TRX Entries will be settled at the earliest opportunity, i.e., the Banking Day of processing or the next Banking Day.

**Standard Entry Class Code:** 3 Positions – Company/Batch Header – Mandatory (all batches)

This field contains a three-character code used to identify various types of Entries.

*ACK: ACH Payment Acknowledgment* – The code that identifies a Non-Monetary Entry initiated by an RDFI to provide an acknowledgment of receipt by the RDFI of a corporate credit payment originated using the CCD format.

*ADV: Automated Accounting Advice* – The code that identifies a Non-Monetary Entry that is used by an ACH Operator to provide



accounting information regarding an Entry to Participating DFIs in machine readable format. An Automated Accounting Advice is an optional service provided by ACH Operators and must be requested by a DFI desiring this service.

*ARC: Accounts Receivable Entry* – The code that identifies a Single Entry debit initiated by an Originator to the Receiver's account based on an Eligible Source Document provided to the Originator by the Receiver (1) via the U.S. mail or delivery service, (2) at a dropbox location, or (3) in person for payment of a bill at a manned location.

*ATX: Financial EDI Acknowledgment* – The code that identifies a Non-Monetary Entry initiated by an RDFI to provide an acknowledgment of receipt by the RDFI of a corporate credit payment originated using the CTX format.

*BOC: Back Office Conversion Entry* – The code that identifies a Single Entry debit initiated by an Originator to the Receiver's account based on an Eligible Source Document provided to the Originator by the Receiver at the point of purchase or at a manned bill payment location for subsequent conversion during back office processing.

*CCD: Corporate Credit or Debit Entry* – The code that identifies an Entry initiated by an Organization to transfer funds to or from an account of that Organization or another Organization.

*CIE: Customer Initiated Entry* – The code that identifies a credit Entry initiated by or on behalf of the holder of a Consumer Account to transfer funds to the account of the Receiver.

*COR: Notification of Change or Refused Notification of Change* – The code that identifies a Non-Monetary Entry Transmitted by (1) an RDFI for the purpose of identifying incorrect information contained within an Entry and providing correct data in the precise format to be used on future Entries, or (2) an

ODFI to refuse a misrouted NOC or an NOC that contains incorrect information.

*CTX: Corporate Trade Exchange* – The code that identifies an Entry initiated by an Organization to transfer funds to or from the account of that Organization or another Organization that permits the inclusion of payment related remittance information in ANSI or UN/EDIFACT syntax.

*DNE: Death Notification Entry* – The code that identifies a Non-Monetary Entry initiated by an agency of the Federal Government of the United States to notify an RDFI of the death of a Receiver.

*ENR: Automated Enrollment Entry* – The code that identifies a Non-Monetary Entry initiated by a Participating DFI to an agency of the Federal Government of the United States on behalf, and at the request, of an account holder at the Participating DFI to enroll in a service that will enable Entries to such Person's account at the Participating DFI.

*IAT: International ACH Transaction* – The code that identifies an Entry that is part of a payment transaction<sup>1</sup> involving a Financial Agency's office that is not located in the territorial jurisdiction of the United States. An office of a Financial Agency is involved in the payment transaction if it (1) holds an account that is credited or debited as part of the payment transaction, (2) receives payment directly from a Person or makes payment directly to a Person as part of the payment transaction, or (3) serves as an intermediary in the settlement of any part of the payment transaction.

*MTE: Machine Transfer Entry* – The code that identifies Entries initiated at an "Electronic terminal," as defined in Regulation E, to transfer funds to or from a Consumer Account maintained with an RDFI, i.e., an ATM cash deposit or withdrawal.

*POP: Point-of-Purchase Entry* – The code that identifies a Single Entry debit initiated by an

<sup>1</sup> See the NACHA Operating Guidelines chapter on International ACH Transactions for further guidance on payment transactions.

Originator to the Receiver's account based on an Eligible Source Document provided to the Originator by the Receiver at the point-of-purchase or manned bill payment location to transfer funds from the Receiver's account.

*POS: Point of Sale Entry* – The code that identifies a debit Entry initiated at an "Electronic terminal," as defined in Regulation E, to transfer funds from a Consumer Account of the Receiver to pay an obligation incurred in a point-of-sale transaction, or to effect a point-of-sale terminal cash withdrawal. Also an adjusting or other credit Entry related to such debit Entry, transfer of funds, or obligation.

*PPD: Prearranged Payment and Deposit Entry* – The code that identifies an Entry initiated by an Organization based on a standing or a Single Entry authorization from a Receiver to transfer funds to or from a Consumer Account of the Receiver.

*RCK: Re-presented Check Entry* – The code that identifies a Single Entry debit constituting a presentment notice of an item eligible under Article Two, Subsection 2.5.13.3 (RCK Eligible Items). An RCK Entry is an item as defined by Revised Article 4 of the Uniform Commercial Code (1990 Official Text) only for the limited purposes of presentment as set forth in Article 4-110(c) and notice of dishonor as set forth in Article 4-301(a)(2).

*SHR: Shared Network Transaction* – The code that identifies a debit Entry initiated at an "Electronic terminal," as defined in Regulation E, to transfer funds from a Consumer Account of the Receiver to pay an obligation incurred in a point-of-sale transaction, or to effect a point-of-sale terminal cash withdrawal. Also an adjusting or other credit Entry related to such debit Entry, transfer of funds, or obligation. SHR Entries are initiated in a shared network where the ODFI and RDFI have an agreement in addition to these Rules to process such Entries.

*TEL: Telephone-Initiated Entry* – The code that identifies a debit initiated by an Originator pursuant to an oral authorization obtained over the telephone to transfer funds from a Consumer Account of the Receiver.

*TRC: Check Truncation Entry* – The code that identifies a debit Entry initiated pursuant to a Check Truncation Program that permits the Truncation of a single Check drawn on the paying bank.

*TRX: Check Truncation Entries Exchange* – The code that identifies a debit Entry initiated based on a Check Truncation Program that permits the Truncation of multiple Checks drawn on the same paying bank.

*WEB: Internet-Initiated/Mobile Entry* – The code that identifies a debit Entry initiated by an Originator to a Consumer Account of the Receiver based on (1) an authorization that is communicated, other than by an oral communication, from the Receiver to the Originator via the Internet or a Wireless Network, or (2) any form of authorization if the Receiver's instruction for the initiation of the individual debit Entry is designed by the Originator to be communicated, other than by an oral communication, to the Originator via a Wireless Network.

*XCK: Destroyed Check Entry* – The code that identifies a debit Entry initiated with respect to an item eligible under Article Two, subsection 2.5.18.2 (XCK Eligible Items).

**Terminal City:** 15 Positions – Addenda Record – Required (MTE, POS, SHR); 4 Positions – Entry Detail Record – Mandatory (POP)

This field identifies the city, town, village or township in which an Electronic terminal is located.

*POP:* This field contains a truncated name or abbreviation to identify the city, town, village, or township in which the Electronic terminal is located.

**Terminal Identification Code:** 6 Positions – Addenda Record – Required (MTE, POS, SHR)

This field identifies an Electronic terminal with a unique code that allows a terminal owner and/or switching network to identify the terminal at which an Entry originated.



**Terminal Location:** 27 Positions – Addenda Record – Required (MTE, POS, SHR)

This field identifies the specific location of a terminal (i.e., street names of an intersection, address, etc.) in accordance with the requirements of Regulation E.

**Terminal State:** 2 Positions – Addenda Record – Required (MTE, POS, SHR); 2 Positions – Entry Detail Record – Mandatory (POP)

This field identifies the state of the United States in which an Electronic terminal is located.

**Total Amount:** 10 Positions – Corporate Entry Detail Record – Mandatory (ATX, CTX, TRX, refused ATX, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

The net dollar value of all items paid to the same business is the total amount. The RDFI posts this total amount to the appropriate account.

*ATX:* The value of this field must always be zero.

**Total Debit or Credit Entry Dollar Amount** (all Files): 12 positions – Company/Batch Control and File Control Records – Mandatory (all Standard Entry Class Codes except ADV); 20 positions – Company/Batch Control and File Control Records – Mandatory (ADV)

These fields contain accumulated Entry Detail debit and credit totals within a specific batch (Company/Batch Control Record) and accumulated Company/Batch Control Record debit and credit totals within a specific File (File Control Record).

**Trace Number:** 15 Positions – Entry Detail Record, Corporate Entry Detail Record, and Addenda Records – Mandatory (ACK, ARC, ATX, BOC, CCD, CIE, CTX, DNE, ENR, IAT, MTE, POP, POS, PPD, RCK, SHR, TEL, TRC, TRX, WEB, XCK, refused ACK, refused ATX, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

A Trace Number, assigned by the ODFI in ascending sequence, is included in each Entry Detail Record, Corporate Entry Detail Record, and Addenda Record. A Trace Number uniquely identifies each Entry Detail Record within a batch in an ACH input File. In association with the Batch Number,

Transmission (File Creation) Date, and File ID Modifier, the Trace Number uniquely identifies an Entry within a specific File. For Addenda Records, the Trace Number is identical to the Trace Number in the associated Entry Detail Record.

Throughout the entire processing cycle (from ODFI to RDFI) the Trace Number is retained with the Entry. The Trace Number is critical in routing returned Entries from the RDFI back to the ODFI through the ACH.

Since it is possible, although undesirable, for an ODFI to duplicate Trace Numbers on separate Files or within different batches submitted during the same processing date, the File ID Modifier contained in the ODFI's File Header Record should also be referenced when the ODFI is tracing returned Entries.

The Trace Number is constructed as follows:

*Positions*

- 01 - 08 Routing number of ODFI (the Originating DFI Identification).
- 09 - 15 Entry Detail Sequence Number – The number assigned in ascending order to each Entry within each batch. Provisions should be made by the ODFI to avoid duplication of Trace Numbers if multiple data Files are prepared on the same day. Trace Numbers are not required to be contiguous.

**Transaction Code:** 2 Positions – Entry Detail Record – Mandatory (ACK, ADV, ARC, ATX, BOC, CCD, CIE, CTX, DNE, ENR, IAT, MTE, POP, POS, PPD, RCK, SHR, TEL, TRC, TRX, WEB, XCK, refused ACK, refused ATX, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

Transaction Codes identify various types of debit and credit Entries.

*Code Values:*

*Demand Credit Records (for checking, NOW, and share draft accounts)*

- 20 Reserved
- 21 Return or Notification of Change for original transaction code 22, 23, or 24

- 22 Demand Credit
- 23 Prenotification of Demand Credit; Death Notification (non-dollar); Automated Enrollment Entry (non-dollar)
- 24 Zero dollar with remittance data (for CCD, CTX, and IAT Entries only); Acknowledgment Entries (ACK and ATX Entries only)

*Demand Debit Records (for checking, NOW, and share draft accounts)*

- 25 Reserved
- 26 Return or Notification of Change for original transaction code 27, 28, or 29
- 27 Demand Debit
- 28 Prenotification of Demand Debit (non-dollar)
- 29 Zero dollar with remittance data (for CCD, CTX, and IAT Entries only)

*Savings Account Credit Records*

- 30 Reserved
- 31 Return or Notification of Change for original transaction code 32, 33, or 34
- 32 Savings Credit
- 33 Prenotification of Savings Credit; Death Notification (non-dollar); Automated Enrollment Entry (non-dollar)
- 34 Zero dollar with remittance data (for CCD, CTX, and IAT Entries only); Acknowledgment Entries (ACK and ATX Entries only)

*Savings Account Debit Records*

- 35 Reserved
- 36 Return or Notification of Change for original transaction code 37, 38, or 39
- 37 Savings Debit
- 38 Prenotification of Savings Debit (non-dollar)
- 39 Zero dollar with remittance data (for CCD, CTX, and IAT Entries only)

*Financial Institution General Ledger Credit Records*

- 41 Return or Notification of Change for original transaction code 42, 43, or 44
- 42 General Ledger Credit
- 43 Prenotification of General Ledger Credit (non-dollar)
- 44 Zero dollar with remittance data (for CCD and CTX Entries only)

*Financial Institution General Ledger Debit Records*

- 46 Return or Notification of Change for original transaction code 47, 48, or 49
- 47 General Ledger Debit
- 48 Prenotification of General Ledger Debit (non-dollar)
- 49 Zero dollar with remittance data (for CCD and CTX only)

*Loan Account Credit Records*

- 51 Return or Notification of Change for original transaction code 52, 53, or 54
- 52 Loan Account Credit
- 53 Prenotification of Loan Account Credit (non-dollar)
- 54 Zero dollar with remittance data (for CCD and CTX Entries only)

*Loan Account Debit Records (for Reversals Only)*

- 55 Loan Account Debit (Reversals Only)
- 56 Return or Notification of Change for original transaction code 55

*Accounting Records (for use in ADV Files only)*

These transaction codes represent accounting Entries.

- 81 Credit for ACH debits originated
- 82 Debit for ACH credits originated
- 83 Credit for ACH credits received
- 84 Debit for ACH debits received
- 85 Credit for ACH credits in Rejected batches
- 86 Debit for ACH debits in Rejected batches
- 87 Summary credit for respondent ACH activity
- 88 Summary debit for respondent ACH activity

**Transaction Date:** 4 Positions – Addenda Record – Required (MTE, POS, SHR)

This date, expressed MMDD, identifies the date on which the transaction occurred.

**Transaction Description:** 7 Positions – Addenda Record – Required (MTE)

This field describes the transaction in accordance with Regulation E. Possible descriptions include:

CHK-DEP	(Checking Deposit)
SAV-DEP	(Savings Deposit)
PAYMENT	
CHK-SAV	(Transfer: checking to savings)
SAV-CHK	(Transfer: savings to checking)
CHK-WDL	(Checking Withdrawal)
SAV-WDL	(Savings Withdrawal)
ADVANCE	(Credit Card Cash Advance)

to which the Entry relates, as well as terminal information (city and state or foreign country) for the POP Entry. When this field contains MTE, POS, or SHR, the Payment Related Information field of the IAT Addenda Record for Remittance Information must contain the terminal information (terminal identification code, terminal location, terminal city, and terminal state or foreign country) for the MTE, POS, or SHR Entry.

**Transaction Serial Number:** 6 Positions – Addenda Record – Required (MTE, POS, SHR)

This number is assigned by the terminal at the time the transaction is originated. The number, with the Terminal Identification Code, serves as an audit trail for the transaction and is usually assigned in ascending sequence.

**Transaction Time:** 6 Positions – Addenda Record – Required (MTE)

This field identifies the time of day a transaction is originated at a terminal. It is expressed in HHMMSS format.

**Transaction Type Code:** 3 Positions – Addenda Record – Required (IAT)

Code values are “ANN” (Annuity), “BUS” (Business/Commercial), “DEP” (Deposit), “LOA” (Loan), “MIS” (Miscellaneous), “MOR” (Mortgage), “PEN” (Pension), “REM” (Remittance), “RLS” (Rent/Lease), “SAL” (Salary/Payroll), “TAX” (Tax), “ARC” (Accounts Receivable Entry), “BOC” (Back Office Conversion Entry), “MTE” (Machine Transfer Entry), “POP” (Point of Purchase Entry), “POS” (Point of Sale Entry), “RCK” (Re-presented Check Entry), “SHR” (Shared Network Transaction), “TEL” (Telephone-Initiated Entry), and “WEB” (Internet-Initiated Entry).

When this field contains ARC, BOC, or RCK, the Payment Related Information field of the IAT Addenda Record for Remittance Information must contain the Check Serial Number of the Eligible Source Document/item to which the Entry relates. When this field contains POP, the Payment Related Information field of the IAT Addenda Record for Remittance Information must contain the Check Serial Number of the Eligible Source Document

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## APPENDIX FOUR

# Return Entries

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An RDFI may return Entries for any reason, except as otherwise provided in Article Three, Subsection 3.8.1 (Restrictions on RDFI's Right to Transmit Return Entries) of these Rules. The RDFI must use an appropriate Return Reason Code as specified in this Appendix Four. If it uses Return Reason Code R11 or R17, it must specify the reason for the Return. If no appropriate Return Reason Code is defined within this Appendix Four, the RDFI must use the code that most closely approximates the reason for Return.

### PART 4.1 Return Entries

NOTE: Throughout this section, DFIs are designated by their original names. For example, the ODFI is the DFI that initially prepared the original Entry, and that will eventually have the Return Entry delivered to it. The RDFI is the DFI that received the original Entry and usually prepares the Return Entry. In some cases, a Return Entry may be prepared by an ACH Operator if the Entry cannot be delivered or if it contains an erroneous condition.

When a Return Entry is prepared, the original Company/Batch Header Record, the original Entry Detail Record, and the Company/Batch Control Record are copied for return to the Originator.

(NOTE: This includes the original SEC code found in Field 51-53 of the Company/Batch Header Record.) In general, Addenda Records transmitted with the original Entry are not copied for return to the Originator. However, IAT Return Entries must include all mandatory Addenda Records Transmitted with the forward IAT Entry. (Note: IAT Addenda Records related to Foreign Correspondent Banks and those that contain remittance information are not Transmitted with IAT Return Entries.)

The Return Entry is a new Entry. These Entries must be assigned new batch and trace numbers, new identification numbers for the returning institution, appropriate transaction codes, etc., as required per format specifications.

**PART 4.2 Table of Return Reason Codes**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R01	Insufficient Funds	The available and/or cash reserve balance is not sufficient to cover the dollar value of the debit Entry.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	
R02	Account Closed	A previously active account has been closed by action of the customer or the RDFI.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	
R03	No Account/Unable to Locate Account	The account number structure is valid and it passes the Check digit validation, but the account number does not correspond to the individual identified in the Entry, or the account number designated is not an existing account.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	This Return Reason Code 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.
R04	Invalid Account Number Structure	The account number structure is not valid.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	The Entry may fail the Check digit validation or may contain an incorrect number of digits.
R05	Unauthorized Debit to Consumer Account Using Corporate SEC Code	CCD or CTX debit Entry was transmitted to a Consumer Account of the Receiver and was not authorized by the Receiver.	RDFI	Extended Return	Consumer	** 60 Calendar Days	Yes	Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries. Article Three, Subsection 3.12.1 - Unauthorized Debit Entry. Article Three, Subsection 3.4.1.2 -Rule Exception for CCD and CTX Entries to Consumer Accounts.	
R06	Returned per ODFI's Request	The ODFI has requested that the RDFI return an Erroneous Entry.	RDFI	Return	Consumer or Non-Consumer	Not defined, determined by ODFI and RDFI.	No	Article Two, Subsection 2.12.2 - ODFI Request for Return.	If the RDFI agrees to return the Entry, the ODFI must indemnify the RDFI according to Article Two, Subsection 2.12.3.
* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.									
** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.									

PART 4.2 Table of Return Reason Codes (continued)

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R07	Authorization Revoked by Customer	The RDFI's customer (the Receiver) revoked the authorization previously provided to the Originator for this debit Entry.	RDFI	Extended Return	Consumer	** 60 Calendar Days	Yes	Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries. Article Three, Subsection 3.12.1 - Unauthorized Debit Entry	This Return Reason Code may not be used for ARC, BOC, POP, or RCK Entries..
R08	Payment Stopped	The Receiver has placed a stop payment order on this debit Entry.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.7 - RDFI Obligation to Stop Payment.	A stop payment order may be placed on one or more debit Entries.
R09	Uncollected Funds	A sufficient ledger balance exists to satisfy the dollar value of the transaction, but the available balance is below the dollar value of the debit Entry.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	
R10	Customer Advises Not Authorized, or Improper, or Ineligible Customer Advises Not Authorized, or Improper, or Ineligible, or part of an Incomplete Transaction	The RDFI has been notified by the Receiver that the Entry is unauthorized, improper, or ineligible. <i>The RDFI has been notified by the Receiver that the Entry is unauthorized, improper, ineligible, or part of an Incomplete Transaction.</i>	RDFI	Extended Return	Consumer; for ARC, BOC, IAT, or POP, Entries may also be a Non-Consumer. See note for additional exceptions.	** 60 Calendar Days	Yes	Article Three, Subsection 3.12.1 - Unauthorized Debit Entry. Article Three, Subsection 3.12.2 - Improper ARC, BOC, POP, and RCK Debit Entries. <i>Article Three, Subsection 3.12.3 - Incomplete Transaction.</i> Article Three, Subsection 3.13 - RDFI May Rely on Standard Entry Class Codes. Article Three, Subsection 3.4.1.2 Rule Exception for CCD and CTX Entries to Consumer Accounts. Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries. <i>Article Eight, Section 8.46 - Incomplete Transaction.</i>	May be used for any Entry except CCD or CTX Entries For CCD or CTX Entries to Consumer Accounts, see R05. For CCD or CTX to Non-Consumer Accounts, see R29. May also be used to return an unauthorized debit Entry to a non-consumer account if the debit Entry contains a consumer SEC Code.
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									

► Approved April 2, 2012, Effective March 15, 2013



**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R11	Check Truncation Entry Return	Used when returning a Check truncation Entry.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	This Return Reason Code should be used only if no other code is applicable. The RDFI must use the Addenda Information field in the Return addenda record to specify the reason for return (i.e. "exceeds dollar amount," "stale date," etc.).
R12	Account Sold to Another DFI	A financial institution received an Entry to an account that was sold to another financial institution.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	
R13	Invalid ACH Routing Number	Entry contains a Receiving DFI Identification or Gateway Identification that is not a valid ACH routing number.	ACH Operator	Reject/Return	Consumer or Non-Consumer	Next file delivery time following processing	No	Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria).	For ACH Operator use only.
R14	Representative Payee Deceased or Unable to Continue in That Capacity	The representative payee is either deceased or unable to continue in that capacity. The beneficiary is not deceased.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	The representative payee is a person or institution authorized to accept Entries on behalf of one or more other persons, such as legally incapacitated adults or minor children.
R15	Beneficiary or Account Holder (Other Than a Representative Payee) Deceased	(1) The beneficiary is deceased, or (2) The account holder is deceased.	RDFI	Return	Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	(1) The beneficiary is the person entitled to the benefits and may or may not be the account holder; or (2) The account holder is the owner of the account and is not a representative payee.
* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.									
** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.									



**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R16	Account Frozen  <i>Account Frozen/Entry Returned Per OEAC Instruction</i>	Access to the account is restricted due to specific action taken by the RDFI or by legal action.  <i>1) Access to the account is restricted due to specific action taken by the RDFI or by legal action; or (2) OEAC has instructed the RDFI or Gateway to return the Entry.</i>	RDFI  <i>RDFI or Gateway</i>	Return  Return	Consumer or Non-Consumer  Consumer or Non-Consumer	* 2 Banking Days  * 2 Banking Days	No  No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.  Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	Some fields that are not edited by the ACH Operator are edited by the RDFI. If the Entry cannot be processed by the RDFI, the field(s) causing the processing error must be identified in the Addenda Information field of the Return.
R17	File Record Edit Criteria	Field(s) cannot be processed by RDFI.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	For ACH Operator use only.
R18	Improper Effective Entry Date	The effective Entry date for a credit Entry is more than two Banking Days after the Banking Day of processing as established by the Originating ACH Operator; or The effective Entry date for a debit Entry is more than one Banking Day after the processing date.	ACH Operator	Reject/ Return	Consumer or Non-Consumer	Next file delivery time following processing	No	Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria).	
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									

■ Approved September 8, 2011, Effective March 15, 2013

PART 4.2 Table of Return Reason Codes (continued)

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R19	Amount Field Error	Amount field is non-numeric. Amount field is not zero in a Prenotification, DNE, ENR, Notification of Change, refused Notification of Change, or zero dollar CCD, CTX, or IAT Entry.  Amount field is zero in an Entry other than a Prenotification, DNE, ENR, Notification of Change, Return, dishonored Return, contested dishonored Return, or zero dollar CCD, CTX, or IAT Entry.  Amount field is greater than \$25,000 for ARC, BOC, POP Entries.	ACH Operator	Reject/ Return	Consumer or Non-Consumer	Next file delivery time following processing	No	See Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria) for a full explanation of this Return Reason Code.	For ACH Operator use only.
R20	Non-Transaction Account	ACH Entry to a non-Transaction Account.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	A non-Transaction Account as defined in Regulation D, would include an account against which transactions are prohibited or limited.
R21	Invalid Company Identification	The identification number used in the Company Identification Field is not valid.	RDFI	Return	Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	This Return Reason Code is generally used on CIE transactions.
R22	Invalid Individual ID Number	The Receiver has indicated to the RDFI that the number with which the Originator was identified is not correct.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	In CIE and MTE Entries, the Individual ID Number is used by the Receiver to identify the account.
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									

**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R23	<b>Credit Entry Refused by Receiver</b>	Any credit Entry that is refused by the Receiver may be returned by the RDFI.	RDFI	Return	Consumer or Non-Consumer	RDFI must transmit the Return Entry to the ACH Operator by the deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the second Banking Day following the RDFI's receipt of notification of refusal of the Entry from its Receiver.	No	Article Three, Subsection 3.8.3.2 - Timing Requirements for Credit Entries Refused by Receiver.	Examples: (1) a minimum amount required by the Receiver has not been remitted; (2) the exact amount required has not been remitted; (3) the account is subject to litigation and the Receiver will not accept the transaction; (4) acceptance of the transaction results in an overpayment; (5) the Originator is not known by the Receiver; or (6) the Receiver has not authorized this credit Entry to this account.
R24	<b>Duplicate Entry</b>	The RDFI has received what appears to be a duplicate Entry, i.e., the trace number, date, dollar amount and/or other data matches another transaction.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	The RDFI should use this code with extreme care and should be aware that if a file has been duplicated, the Originator may have already generated a reversal transaction to handle the situation.
R25	<b>Addenda Error</b>	Addenda Record Indicator value is incorrect. Addenda Type Code is invalid, out of sequence, or missing, Number of Addenda Records exceeds allowable maximum, Addenda Sequence Number is invalid.	ACH Operator	Reject/ Return	Consumer or Non-Consumer	Next file delivery time following processing	No	Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria).	For ACH Operator use only.
R26	<b>Mandatory Field Error</b>	Erroneous data or missing data in a mandatory field.	ACH Operator	Reject/ Return	Consumer or Non-Consumer	Next file delivery time following processing	No	Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria).	For ACH Operator use only.
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									

**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R27	Trace Number Error	Original Entry Trace Number is not present in the Addenda Record on a Return or Notification of Change Entry, or Trace Number of an Addenda Record is not the same as the Trace Number of the preceding Entry Detail Record.	ACH Operator	Reject/ Return	Consumer or Non-Consumer	Next file delivery time following processing	No	Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria).	For ACH Operator use only.
R28	Routing Number Check Digit Error	The Check digit for a routing number is not valid.	ACH Operator	Reject/ Return	Consumer or Non-Consumer	Next file delivery time following processing	No	Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria).	For ACH Operator use only.
R29	Corporate Customer Advises Not Authorized	The RDFI has been notified by the Receiver (non-consumer) that a specific Entry has not been authorized by the Receiver.	RDFI	Return	Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries. Article Three, Subsection 3.12.1 - Unauthorized Debit Entry	Beyond the return time frame the ODFI may agree to accept a late Return Entry; if so use R31.
R30	RDFI Not Participant in Check Truncation Program	The RDFI does not participate in a Check truncation program.	ACH Operator	Reject/ Return	Consumer or Non-Consumer	Next file delivery time following processing	No	Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria). Article Four, Subsection 4.2.6 - Return and Rejection of TRC Entries or TRX Entries.	For ACH Operator use only.
R31	Permissible Return Entry (CCD and CTX only)	The RDFI may return a CCD or CTX Entry that the ODFI agrees to accept.	RDFI	Return	Non-Consumer	Not defined, determined by the ODFI and RDFI.	No	Article Three, Subsection 3.8.3.5 - Late Return Entries for CCD or CTX Entries with ODFI Agreement.	CCD and CTX Entries only.
R32	RDFI Non-Settlement	The RDFI is not able to settle the Entry.	ACH Operator	Reject/ Return	Consumer or Non-Consumer	Next file delivery time following processing	No	Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria).	For ACH Operator use only.
R33	Return of XCK Entry	This Return Reason Code may only be used to return XCK Entries and is at the RDFI's sole discretion.	RDFI	Extended Return	Consumer or Non-Consumer	** 60 Calendar Days	No	Article Three, Subsection 3.8.3.4 - Timing Requirements for Return of XCK Entries.	

\* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.

\*\* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.

**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R34	Limited Participation DFI	The RDFI's participation has been limited by a federal or state supervisor.	ACH Operator	Reject/ Return	Consumer or Non-Consumer	Next file delivery time following processing	No	Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria).	For ACH Operator use only.
R35	Return of Improper Debit Entry	Debit Entries (with the exception of Reversing Entries) are not permitted for CIE Entries or to loan accounts.	ACH Operator	Reject/ Return	Consumer or Non-Consumer	Next file delivery time following processing	No	Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria)	For ACH Operator use only.
R36	Return of Improper Credit Entry	ACH credit Entries (with the exception of Reversing Entries) are not permitted for use with ARC, BOC, POP, RCK, TEL, WEB, and XCK.	ACH Operator	Reject/ Return	Consumer or Non-Consumer	Next file delivery time following processing	No	Appendix Two, Part 2.5 (Automatic Entry Detail Rejection Criteria).	For ACH Operator use only.
R37	Source Document Presented for Payment	The source document to which an ARC, BOC, or POP Entry relates has been presented for payment.	RDFI	Extended Return	Consumer or Non-Consumer	** 60 Calendar Days	Yes	Article Three, Subsection 3.12.2 - Improper ARC, BOC, POP, and RCK Debit Entries. Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries	For use with ARC, BOC, and POP Entries only.
R38	Stop Payment on Source Document	The RDFI determines a stop payment order has been placed on the source document to which the ARC or BOC Entry relates.	RDFI	Extended Return	Consumer or Non-Consumer	** 60 Calendar Days	No	Article Three, Subsection 3.11.2.2 - RDFI Obligation to Recredit for ARC, BOC, and RCK Entries Regarding Stop Payments Orders. Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries.	For use with ARC and BOC Entries only.
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									

**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R39	Improper Source Document/Source Document Presented for Payment	The RDFI determines that: (1) the source document used for an ARC, BOC, or POP Entry to its Receiver's account is improper, or (2) an ARC, BOC, or POP Entry and the source document to which the Entry relates have both been presented for payment and posted to the Receiver's account.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Subsection 3.12.2 - Improper ARC, BOC, POP, and RCK Debit Entries. Article Eight, Section 8.32 - Eligible Source Document.	For use with ARC, BOC, and POP Entries only and when the RDFI (rather than the Receiver) determines the Entry is improper.
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									



**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
<b>RETURN REASON CODES TO BE USED BY FEDERAL GOVERNMENT AGENCIES RETURNING ENR ENTRIES</b>									
<b>R40</b>	<b>Return of ENR Entry by Federal Government Agency</b>	This Return Reason Code may only be used to return ENR Entries and is at the Federal Government Agency's sole discretion.	Federal Government Agency	Return - ENR Only	N/A	N/A	No	The Green Book <a href="http://www.fms.treas.gov/greenbook">www.fms.treas.gov/greenbook</a>	For Federal Government Agency use only.
<b>R41</b>	<b>Invalid Transaction Code</b>	Either the Transaction Code included in Field 3 of the Addenda Record does not conform to the ACH Record Format Specifications contained in Appendix Three (ACH Record Format Specifications) or it is not appropriate with regard to an Automated Enrollment Entry.	Federal Government Agency	Return - ENR Only	N/A	N/A	No	The Green Book <a href="http://www.fms.treas.gov/greenbook">www.fms.treas.gov/greenbook</a> Appendix Three - ACH Record Format Specifications, Part 3.2 - Glossary of ACH Record Format Data Elements - Payment Related Information	For Federal Government Agency use only. Example: Transaction Code "28," Prenotification of Demand Deposit Debit Authorization, for an ENR sent to SSA pertaining to a direct deposit enrollment.
<b>R42</b>	<b>Routing Number/Check Digit Error</b>	The Routing Number and the Check Digit included in Field 3 of the Addenda Record is either not a valid number or it does not conform to the Modulus 10 formula.	Federal Government Agency	Return - ENR Only	N/A	N/A	No	The Green Book <a href="http://www.fms.treas.gov/greenbook">www.fms.treas.gov/greenbook</a>	For Federal Government Agency use only.
<b>R43</b>	<b>Invalid DFI Account Number</b>	The Receiver's account number included in Field 3 of the Addenda Record must include at least one alphanumeric character.	Federal Government Agency	Return - ENR Only	N/A	N/A	No	The Green Book <a href="http://www.fms.treas.gov/greenbook">www.fms.treas.gov/greenbook</a>	For Federal Government Agency use only.
<b>R44</b>	<b>Invalid Individual ID Number/ Identification Number</b>	The Individual ID Number/ Identification Number provided in Field 3 of the Addenda Record does not match a corresponding ID number in the Federal Government Agency's records.	Federal Government Agency	Return - ENR Only	N/A	N/A	No	The Green Book <a href="http://www.fms.treas.gov/greenbook">www.fms.treas.gov/greenbook</a>	For Federal Government Agency use only.
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									

**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R45	Invalid Individual Name/Company Name	The name of the consumer or company provided in Field 3 of the Addenda Record either does not match a corresponding name in the Federal Government Agency's records or fails to include at least one alphabetic character.	Federal Government Agency	Return - ENR Only	N/A	N/A	No	The Green Book <a href="http://www.fms.treas.gov/greenbook">www.fms.treas.gov/greenbook</a> .	For Federal Government Agency use only.
R46	Invalid Representative Payee Indicator	The Representative Payee Indicator Code included in Field 3 of the Addenda Record has been omitted or it is not consistent with the Federal Government Agency's records.	Federal Government Agency	Return - ENR Only	N/A	N/A	No	The Green Book <a href="http://www.fms.treas.gov/greenbook">www.fms.treas.gov/greenbook</a> .	Examples: The Representative Payee Indicator Code is "zero," and Social Security's records indicate that payments should be sent to a representative payee on behalf of an entitled beneficiary; or The Representative Payee Indicator Code is "one," and Social Security's records indicate that there is no representative payee and the beneficiary may receive payments directly. For Federal Government Agency use only.
R47	Duplicate Enrollment	The Entry is a duplicate of an Automated Enrollment Entry previously initiated by a DFI.	Federal Government Agency	Return - ENR Only	N/A	N/A	No	The Green Book <a href="http://www.fms.treas.gov/greenbook">www.fms.treas.gov/greenbook</a> .	For Federal Government Agency use only.

\* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.

\*\* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.

## PART 4.2 Table of Return Reason Codes (continued)

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
<b>CODES TO BE USED FOR RETURN OF RCK ENTRIES</b>									
R50	State Law Affecting RCK Acceptance	The RDFI is located in a state that has not adopted Revised Article 4 of the Uniform Commercial Code (1990 Official Text) and has not revised its customer agreements to allow for Electronic presentment. OR The RDFI is located within a state that requires all canceled Checks to a specific type of account to be returned to the Receiver within the periodic statement.	RDFI	Return	Consumer	* 2 Banking Days	No	Uniform Commercial Code Article 4 <a href="http://www.law.com/ell.edu/ucc/4/">http://www.law.com/ell.edu/ucc/4/</a>	For use with RCK Entries only.
R51	Item Related to RCK Entry is Ineligible or RCK Entry is Improper.	An RCK Entry considered to be ineligible or improper.	RDFI	Extended Return	Consumer	** 60 Calendar Days	Yes	Article Three, Subsection 3.12.2 - Improper ARC, BOC, POP, and RCK Debit Entries. Article Two, Subsection 2.5.13.3 - RCK Eligible Items. Article Two, Subsection 2.5.13.4 - RCK Ineligible Items.	For use with RCK Entries only.
R52	Stop Payment on Item Related to RCK Entry	A stop payment order has been placed on the item to which the RCK Entry relates.	RDFI	Extended Return	Consumer	** 60 Calendar Days	No	Article Three, Subsection 3.11.2.2 - RDFI Obligation to Recredit for ARC, BOC, and RCK Entries Regarding Stop Payment Orders.	For use with RCK Entries only.
R53	Item and RCK Entry Presented for Payment	In addition to an RCK Entry, the item to which the RCK Entry relates has also been presented for payment.	RDFI	Extended Return	Consumer	** 60 Calendar Days	Yes	Article Three, Subsection 3.12.2 - Improper ARC, BOC, POP, and RCK Debit Entries.	For use with RCK Entries only.
* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.									
** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.									

**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
<b>CODES TO BE USED BY THE ODFI FOR DISHONORED RETURN ENTRIES</b>									
<b>R61</b>	<b>Misrouted Return</b>	The financial institution preparing the Return Entry (the RDFI of the original Entry) has placed the incorrect Routing Number in the Receiving DFI Identification field.	ODFI	Dishonored Return May be used for all Entries except IAT.	Consumer or Non-Consumer	The ODFI must transmit a dishonored Return Entry to its ACH Operator within five Banking Days after the Settlement Date of the Return Entry.	No	Article Two, Subsection 2.12.5.1 - Dishonor of Return by ODFI.	May be used for all Entries except IAT.
<b>R67</b>	<b>Duplicate Return</b>	The ODFI has received more than one Return for the same Entry.	ODFI	Dishonored Return May be used for all Entries except IAT.	Consumer or Non-Consumer	The ODFI must transmit a dishonored Return Entry to its ACH Operator within five Banking Days after the Settlement Date of the Return Entry.	No	Article Two, Subsection 2.12.5.1 - Dishonor of Return by ODFI.	May be used for all Entries except IAT.
<b>R68</b>	<b>Untimely Return</b>	The Return Entry has not been sent within the timeframe established by these Rules.	ODFI	Dishonored Return May be used for all Entries except IAT.	Consumer or Non-Consumer	The ODFI must transmit a dishonored Return Entry to its ACH Operator within five Banking Days after the Settlement Date of the Return Entry.	No	Article Two, Subsection 2.12.5.1 - Dishonor of Return by ODFI.	May be used for all Entries except IAT.
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									

PART 4.2 Table of Return Reason Codes (continued)

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R69	Field Error(s)	One or more of the field requirements are incorrect.	ODFI	Dishonored Return May be used for all Entries except IAT.	Consumer or Non-Consumer	The ODFI must transmit a dishonored Return Entry to its ACH Operator within five Banking Days after the Settlement Date of the Return Entry.	No	Article Two, Subsection 2.12.5.1 - Dishonor of Return by ODFI.	The ODFI must insert the appropriate code(s) from below, separated by an asterisk (*), within the Addenda Information Field of the Addenda Record Format for dishonored Returns to indicate the field(s) in which the errors occur. 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 an Invalid Effective Entry Date For Example: 01*03*06 May be used for all Entries except IAT.
R70	Permissible Return Entry Not Accepted/ Return Not Requested by ODFI	The ODFI has received a Return Entry identified by the RDFI as being returned with the permission of, or at the request of, the ODFI, but the ODFI has not agreed to accept the Entry or has not requested the return of the Entry.	ODFI	Dishonored Return May be used for all Entries except IAT.	Consumer or Non-Consumer	The ODFI must transmit a dishonored Return Entry to its ACH Operator within five Banking Days after the Settlement Date of the Return Entry.	No	Article Two, Subsection 2.12.5.1 - Dishonor of Return by ODFI.	This code may be used only to dishonor Return Entries containing Return Reason Codes R06 and R31. May be used for all Entries except IAT.

\* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.

\*\* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.

**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
<b>CODES TO BE USED BY THE RDFI FOR CONTESTED DISHONORED RETURN ENTRIES</b>									
<b>R71</b>	<b>Misrouted Dishonored Return</b>	The financial institution preparing the dishonored Return Entry (the ODFI of the original Entry) has placed the incorrect Routing Number in the Receiving DFI Identification field.	RDFI	Contested Dishonored Return May be used for all Entries except IAT.	Consumer or Non-Consumer	The contested dishonored Return Entry must be transmitted to the ACH Operator within two Banking Days after the Settlement Date of the dishonored Return Entry.	No	Article Three, Subsection 3.8.5.2 - RDFI May Contest Dishonored Returns.	May be used for all Entries except IAT.
<b>R72</b>	<b>Untimely Dishonored Return</b>	The dishonored Return Entry has not been sent within the designated timeframe.	RDFI	Contested Dishonored Return May be used for all Entries except IAT.	Consumer or Non-Consumer	The contested dishonored Return Entry must be transmitted to the ACH Operator within two Banking Days after the Settlement Date of the dishonored Return Entry.	No	Article Two, Subsection 2.12.5.1 - Dishonor of Return by ODFI. Article Three, Subsection 3.8.5.2 - RDFI May Contest Dishonored Returns.	May be used for all Entries except IAT.
<b>R73</b>	<b>Timely Original Return</b>	The RDFI is certifying that the original Return Entry was sent within the timeframe designated in these Rules.	RDFI	Contested Dishonored Return May be used for all Entries except IAT.	Consumer or Non-Consumer	The contested dishonored Return Entry must be transmitted to the ACH Operator within two Banking Days after the Settlement Date of the dishonored Return Entry.	No	Article Three, Subsection 3.8.5.2 - RDFI May Contest Dishonored Returns.	May be used for all Entries except IAT.
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									



**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R74	<b>Corrected Return</b>	The RDFI is correcting a previous Return Entry that was dishonored using Return Reason Code R69 (Field Errors) because it contained incomplete or incorrect information.	RDFI	Corrected Return May be used for all Entries except IAT.	Consumer or Non-Consumer	The corrected Return Entry must be transmitted to the ACH Operator within two Banking Days after the Settlement Date of the dishonored Return Entry.	No	Article Three, Subsection 3.8.5.1 - RDFI May Contest Dishonored Returns.	Data must be obtained from the following fields in the original Company Batch Header Record, Entry Detail Record or Addenda Record: • DFI Account Number • Trace Number • Amount • Individual Identification Number/ Identification Number • Transaction Code • Company Identification • Effective Entry Date May be used for all Entries except IAT.
R75	<b>Return Not a Duplicate</b>	The Return Entry was not a duplicate of an Entry previously returned by the RDFI.	RDFI	Contested Dishonored Return May be used for all Entries except IAT.	Consumer or Non-Consumer	The contested dishonored Return Entry must be transmitted to the ACH Operator within two Banking Days after the Settlement Date of the dishonored Return Entry.	No	Article Three, Subsection 3.8.5.2 - RDFI May Contest Dishonored Returns.	This code may be used by the RDFI to contest a dishonored Return Entry from an ODFI that used Return Reason Code R67 (Duplicate Return). May be used for all Entries except IAT.
R76	<b>No Errors Found</b>	The original Return Entry did not contain the errors indicated by the ODFI in the dishonored Return Entry.	RDFI	Contested Dishonored Return May be used for all Entries except IAT.	Consumer or Non-Consumer	The contested dishonored Return Entry must be transmitted to the ACH Operator within two Banking Days after the Settlement Date of the dishonored Return Entry.	No	Article Three, Subsection 3.8.5.2 - RDFI May Contest Dishonored Returns.	This code may be used by the RDFI to contest a dishonored Return Entry from an ODFI that used Return Reason Code R69 (Field Errors). May be used for all Entries except IAT.
* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.									
*** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.									

**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
<b>CODES TO BE USED BY GATEWAYS FOR THE RETURN OF INTERNATIONAL PAYMENTS</b>									
<b>R80</b>	<b>IAT Entry Coding Error</b>	The IAT Entry is being returned due to one or more of the following conditions: <ul style="list-style-type: none"> <li>• invalid DFI/Bank Branch Country Code</li> <li>• invalid DFI/Bank Identification Number Qualifier</li> <li>• invalid Foreign Exchange Indicator</li> <li>• invalid ISO Originating Currency Code</li> <li>• invalid ISO Destination Currency Code</li> <li>• invalid ISO Destination Country Code</li> <li>• invalid Transaction Type Code.</li> </ul>	Gateway	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries. Article Five, Section 5.3 - Gateway Assumes Obligations of Other Participants.	For Gateway use with Outbound IAT Entries only
<b>R81</b>	<b>Non-Participant in IAT Program</b>	The IAT Entry is being returned because the Gateway does not have an agreement with either the ODFI or the Gateway's customer to transmit IAT Entries.	Gateway	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Five, Subsection 5.1.1 - Gateway Must Enter Agreement with ODFI or Gateway's customer.	For Gateway use with Outbound IAT Entries only
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									

**PART 4.2 Table of Return Reason Codes (continued)**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R82	Invalid Foreign Receiving DFI Identification	The reference used to identify the Foreign Receiving DFI of an Outbound IAT Entry is invalid.	Gateway	Return	Consumer or Non-Consumer	* 2 Banking Days	No		For Gateway use with Outbound IAT Entries only.
R83	Foreign Receiving DFI Unable to Settle	The IAT Entry is being returned due to settlement problems in the foreign payment system.	Gateway	Return	Consumer or Non-Consumer	* 2 Banking Days	No		For Gateway use with Outbound IAT entries only.
R84	Entry Not Processed by Gateway	For Outbound IAT Entries, the Entry has not been processed and is being returned at the Gateway's discretion because either (1) the processing of such Entry may expose the Gateway to excessive risk, or (2) the foreign payment system does not support the functions needed to process the transaction.	Gateway	Return	Consumer or Non-Consumer	* 2 Banking Days	No		For Gateway use with Outbound IAT entries only.
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									

PART 4.2 Table of Return Reason Codes (continued)

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R85	Incorrectly Coded Outbound International Payment	The RDFI/Gateway has identified the Entry as an Outbound international payment and is returning the Entry because it bears an SEC Code that lacks information required by the Gateway for OFAC compliance.	Gateway	Return	Consumer or Non-Consumer	* 2 Banking Days	No		For Gateway use with Entries bearing an SEC Code other than LAT.
<p>* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to 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.</p> <p>** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry 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.</p>									

■ Approved September 8, 2011, Effective March 15, 2013

### **PART 4.3 Record Formats for Return Entries**

Unless otherwise noted, the field contents for Return Entries must match the field contents of the original Entries. [See Appendix Three (ACH Record Format Specifications) for the File Header, Company/Batch Control and File Control Record formats.]

## SUBPART 4.3.1 Company/Batch Header Record Format for Returns

## RETURNS — COMPANY/BATCH HEADER RECORD

*(excludes LAT entries)*

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	COMPANY NAME	COMPANY DISCRETIONARY DATA	COMPANY IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	COMPANY DESCRIPTIVE DATE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	O	M	M	M	O	R	Inserted by ACH Operator	M	M	M
<i>Contents</i>	'5'	Numeric	Alphameric	Alphameric	Alphameric	Alphameric	Alphameric <sup>1</sup>	Alphameric	YYMMDD	Numeric	Alphameric <sup>2</sup>	TTTTAAAA <sup>3</sup>	Numeric <sup>4</sup>
<i>Length</i>	1	3	16	20	10	3	10	6	6	3	1	8	7
<i>Position</i>	01-01	02-04	05-20	21-40	41-50	51-53	54-63	64-69	70-75	76-78	79-79	80-87	88-94

NOTE: For Return Entries, each field of the Company/Batch Header remains unchanged from the original entry, unless otherwise noted.

1 May contain the identification of the ACH Operator converting the entry.

2 Changed to reflect the Originator Status Code of the institution initiating the Return Entry (i.e., the RDFI of the original entry).

3 Changed to reflect the Routing Number of the institution initiating the Return Entry (i.e., the RDFI of the original entry).

4 Changed to the batch number assigned by the institution preparing the Automated Return Entry.



## SUBPART 4.3.2 Company/Batch Header Record Formats for International ACH Transaction (IAT) Returns

## IAT RETURNS — COMPANY/BATCH HEADER RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	IAT INDICATOR	FOREIGN EXCHANGE INDICATOR	FOREIGN EXCHANGE REFERENCE INDICATOR	FOREIGN EXCHANGE REFERENCE	ISO DESTINATION COUNTRY CODE	ORIGINATOR IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	ISO ORIGINATING CURRENCY CODE	ISO DESTINATION CURRENCY CODE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	IDENTIFICATION ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
Field Inclusion Requirement	M	M	O	M	R	R	M	M	M	M	M	M	R	Inserted by ACH Operator	M	M	M
Contents	'5'	Numeric	Alphanumeric	Alphanumeric	Numeric	Alphanumeric <sup>1</sup>	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	YYMMDD	Numeric	Alphanumeric <sup>2</sup>	TTTTAAAA <sup>3</sup>	Numeric <sup>4</sup>
Length	1	3	16	2	1	15	2	10	3	10	3	3	6	3	1	8	7
Position	01-01	02-04	05-20	21-22	23-23	24-38	39-40	41-50	51-53	54-63	64-66	67-69	70-75	76-78	79-79	80-87	88-94

NOTE: For IAT Return Entries, each field of the Company/Batch Header Record remains unchanged from the original entry, unless otherwise noted.

1 For the return of an outbound International ACH Transaction originated by a U.S. ODFI, this field will contain the foreign exchange rate that is applicable at the time of the return entry if a foreign exchange rate is provided within this field on the forward entry.

2 Changed to reflect the Originator Status Code of the institution initiating the Return Entry (i.e., the RDFI of the original entry).

3 Changed to reflect the Routing Number of the institution initiating the Return Entry (i.e., the RDFI of the original entry).

4 Changed to the batch number assigned by the institution preparing the Automated Return Entry.

## SUBPART 4.3.3 Corporate Entry Detail Record Format for Returns

## RETURNS — CORPORATE ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	TOTAL AMOUNT	IDENTIFICATION NUMBER	NUMBER OF ADDENDA RECORDS	RECEIVING COMPANY NAME/ID NUMBER	RESERVED	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	O	M	R	N/A	R	M	M
<i>Contents</i>	'6'	Numeric <sup>1</sup>	TTTTAAAA <sup>2</sup>	Numeric <sup>3</sup>	Alphanumeric	\$\$\$\$\$\$\$ <sup>4</sup>	Alphanumeric	Numeric	Alphanumeric	Blank	Alphanumeric	'1'	Numeric <sup>4</sup>
<i>Length</i>	1	2	8	1	17	10	15	4	16	2	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-58	59-74	75-76	77-78	79-79	80-94

NOTE: For Return Entries, each field of the Corporate Entry Detail Record remains unchanged from the original entry, unless otherwise noted.

1 Changed to the appropriate Return Entry Transaction Code. (See Transaction Codes under currently assigned "Code Values" in Appendix Three.)

2 Changed to the Routing Number of the institution receiving the Return Entry (i.e., the ODFI of the original entry).

3 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.

4 Changed to the Trace Number assigned by the institution preparing the Automated Return Entry.

## SUBPART 4.3.4 Entry Detail Record Format for Returns

### RETURNS — ENTRY DETAIL RECORD

(excludes IAT entries)

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL IDENTIFICATION NUMBER/CHECK SERIAL NUMBER	INDIVIDUAL NAME/RECEIVING COMPANY NAME	DISCRETIONARY DATA/PAYMENT TYPE CODE/CARD TRANSACTION TYPE CODE	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O	R	R/M	M	M
Contents	'6'	Numeric <sup>1</sup>	TTTTAAAA <sup>2</sup>	Numeric <sup>3</sup>	Alphanumeric	\$\$\$\$\$\$\$¢ <sup>4</sup>	Alphanumeric <sup>5</sup>	Alphanumeric <sup>5</sup>	Alphanumeric <sup>6</sup>	'1'	Numeric <sup>7</sup>
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

NOTE: For Return Entries, each field of the Entry Detail Record remains unchanged from the original entry, unless otherwise noted.

1 Changed to the appropriate Return Entry Transaction Code. (See Transaction Codes under currently assigned "Code Values" in Appendix Three.)

2 Changed to the Routing Number of the institution receiving the Return Entry (i.e., the ODFI of the original entry).

3 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.

4 For the return of an outbound International ACH Transactions entry originated by a U.S. ODFI, this amount will be different from the amount reflected in the original forward entry if the exchange rate is different at the time of the return.

5 For CIE and MTE entries, positions 40-54 are used for a 15-character Individual Name, and positions 55-76 are used for a 22-character Individual Identification Number.

6 For SHR and POS return entries, this field (positions 77-78) is mandatory and contains the Card Transaction Type Code (positions 77-78) of the original entry.

7 Changed to the Trace Number assigned by the institution preparing the Automated Return Entry.

**SUBPART 4.3.5 Addenda Record Format for Returns**  
*(Note: This format is not for use with IAT Returns.)*

**RETURNS — ADDENDA RECORD**

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	RETURN REASON CODE	ORIGINAL ENTRY TRACE NUMBER	DATE OF DEATH	ORIGINAL RECEIVING DFI IDENTIFICATION	ADDENDA INFORMATION	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	O	R	O	M
Contents	'7'	'99'	Alphameric	Numeric <sup>1</sup>	YYMMDD <sup>2</sup>	TTTTAAA <sup>3</sup>	Alphameric	Numeric
Length	1	2	3	15	6	8	44	15
Position	01-01	02-03	04-06	07-21	22-27	28-35	36-79	80-94

1 Copy data from positions 80-94 of the Entry Detail Record

2 To be used only with Return Code R14 or R15.

3 Copy data from positions 04-11 of the original Entry Detail Record.

## SUBPART 4.3.6 Entry Detail Record for IAT Return Entries

## IAT RETURNS — ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	GO IDENTIFICATION/ RECEIVING DFI IDENTIFICATION	CHECK DIGIT	NUMBER OF ADDENDA RECORDS	RESERVED	AMOUNT	FOREIGN RECEIVER'S ACCOUNT NUMBER/ DFI ACCOUNT NUMBER	RESERVED	GATEWAY OPERATOR OFAC SCREENING INDICATOR	SECONDARY OFAC SCREENING INDICATOR	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	M	N/A	M	M	N/A	O	O	M	M
<i>Contents</i>	'6'	Numeric <sup>1</sup>	TTTTAAA <sup>2</sup>	Numeric <sup>3</sup>	Numeric	Blank	\$\$\$\$\$\$\$ <sup>4</sup>	Alphanumeric	Blank	Alphanumeric	Alphanumeric	Numeric	Numeric <sup>5</sup>
<i>Length</i>	1	2	8	1	4	13	10	35	2	1	1	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-16	17-29	30-39	40-74	75-76	77-77	78-78	79-79	80-94

NOTE: For IAT Return Entries, each field of the Entry Detail Record remains unchanged from the original entry, unless otherwise noted.

1 Changed to the appropriate Return Entry Transaction Code. (See Transaction Codes under currently assigned "Code Values" in Appendix Three.)

2 Changed to the Routing Number of the institution receiving the Return Entry (i.e., the ODFI of the original entry).

3 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.

4 For the return of an outbound International ACH Transaction originated by a U.S. ODFI, this amount will be different from the amount reflected in the original forward entry if the exchange rate is different at the time of the return.

5 Changed to the Trace Number assigned by the institution preparing the Automated Return Entry.

**SUBPART 4.3.6 Entry Detail Addenda Records for IAT Return Entries (continued)****FIRST ADDENDA RECORD FOR IAT RETURN ENTRIES**

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	TRANSACTION TYPE CODE	FOREIGN PAYMENT AMOUNT	FOREIGN TRACE NUMBER	RECEIVING COMPANY NAME/ INDIVIDUAL NAME	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
<i>Field Inclusion Requirement</i>	M	M	R	R	O	M	N/A	M
<i>Contents</i>	'7'	'10'	Alphameric	\$\$\$\$\$\$\$\$\$\$\$\$\$\$\$	Alphameric	Alphameric	Blank	Numeric <sup>1</sup>
<i>Length</i>	1	2	3	18	22	35	6	7
<i>Position</i>	01-01	02-03	04-06	07-24	25-46	47-81	82-87	88-94

NOTE: For IAT Return Entries, each field of the 1st Addenda Record remains unchanged from the original 1st Addenda Record, unless otherwise noted.  
 1 Changed to reflect the Entry Detail Sequence Number associated with the trace number assigned by the institution preparing the Automated Return Entry.

**SECOND ADDENDA RECORD FOR IAT RETURN ENTRIES**

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	ORIGINATOR NAME	ORIGINATOR STREET ADDRESS	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	N/A	M
<i>Contents</i>	'7'	'11'	Alphameric	Alphameric	Blank	Numeric <sup>1</sup>
<i>Length</i>	1	2	35	35	14	7
<i>Position</i>	01-01	02-03	04-38	39-73	74-87	88-94

NOTE: For IAT Return Entries, each field of the 2nd Addenda Record remains unchanged from the original 2nd Addenda Record, unless otherwise noted.  
 1 Changed to reflect the Entry Detail Sequence Number associated with the trace number assigned by the institution preparing the Automated Return Entry.



## SUBPART 4.3.6 Entry Detail Addenda Records for IAT Return Entries (continued)

## THIRD ADDENDA RECORD FOR IAT RETURN ENTRIES

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	ORIGINATOR CITY & STATE/PROVINCE	ORIGINATOR COUNTRY & POSTAL CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	N/A	M
Contents	'7'	'12'	Alphameric	Alphameric	Blank	Numeric <sup>1</sup>
Length	1	2	35	35	14	7
Position	01-01	02-03	04-38	39-73	74-87	88-94

NOTE: For IAT Return Entries, each field of the 3rd Addenda Record remains unchanged from the original 3rd Addenda Record, unless otherwise noted.  
 1 Changed to reflect the Entry Detail Sequence Number associated with the trace number assigned by the institution preparing the Automated Return Entry.

## FOURTH ADDENDA RECORD FOR IAT RETURN ENTRIES

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	ORIGINATING DFI NAME	ORIGINATING DFI IDENTIFICATION NUMBER QUALIFIER	ORIGINATING DFI IDENTIFICATION	ORIGINATING DFI BRANCH COUNTRY CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	M	M	N/A	M
Contents	'7'	'13'	Alphameric	Alphameric	Alphameric	Alphameric	Blank	Numeric <sup>1</sup>
Length	1	2	35	2	34	3	10	7
Position	01-01	02-03	04-38	39-40	41-74	75-77	78-87	88-94

NOTE: For IAT Return Entries, each field of the 4th Addenda Record remains unchanged from the original 4th Addenda Record, unless otherwise noted.  
 1 Changed to reflect the Entry Detail Sequence Number associated with the trace number assigned by the institution preparing the Automated Return Entry.

## SUBPART 4.3.6 Entry Detail Addenda Records for IAT Return Entries (continued)

## FIFTH ADDENDA RECORD FOR IAT RETURN ENTRIES

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	RECEIVING DFI NAME	RECEIVING DFI IDENTIFICATION NUMBER QUALIFIER	RECEIVING DFI IDENTIFICATION	RECEIVING DFI BRANCH COUNTRY CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	M	M	N/A	M
Contents	7 <sup>1</sup>	14 <sup>1</sup>	Alphameric	Alphameric	Alphameric	Alphameric	Blank	Numeric <sup>1</sup>
Length	1	2	35	2	34	3	10	7
Position	01-01	02-03	04-38	39-40	41-74	75-77	78-87	88-94

NOTE: For IAT Return Entries, each field of the 5th Addenda Record remains unchanged from the original 5th Addenda Record, unless otherwise noted.

1 Changed to reflect the Entry Detail Sequence Number associated with the trace number assigned by the institution preparing the Automated Return Entry.

## SIXTH ADDENDA RECORD FOR IAT RETURN ENTRIES

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	RECEIVER IDENTIFICATION NUMBER	RECEIVER STREET ADDRESS	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	N/A	M
Contents	7 <sup>1</sup>	15 <sup>1</sup>	Alphameric	Alphameric	Blank	Numeric <sup>1</sup>
Length	1	2	15	35	34	7
Position	01-01	02-03	04-18	19-53	54-87	88-94

NOTE: For IAT Return Entries, each field of the 6th Addenda Record remains unchanged from the original 6th Addenda Record, unless otherwise noted.

1 Changed to reflect the Entry Detail Sequence Number associated with the trace number assigned by the institution preparing the Automated Return Entry.

**SUBPART 4.3.6 Entry Detail Addenda Records for IAT Return Entries (continued)****SEVENTH ADDENDA RECORD FOR IAT RETURN ENTRIES**

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	RECEIVER CITY & STATE/PROVINCE	RECEIVER COUNTRY & POSTAL CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	N/A	M
<i>Contents</i>	7 <sup>1</sup>	16 <sup>1</sup>	Alphameric	Alphameric	Blank	Numeric <sup>1</sup>
<i>Length</i>	1	2	35	35	14	7
<i>Position</i>	01-01	02-03	04-38	39-73	74-87	88-94

NOTE: For IAT Return Entries, each field of the 7th Addenda Record remains unchanged from the original 7th Addenda Record, unless otherwise noted.

1 Changed to reflect the Entry Detail Sequence Number associated with the trace number assigned by the institution preparing the Automated Return Entry.

**EIGHTH ADDENDA RECORD FOR IAT RETURN ENTRIES**

FIELD	1	2	3	4	5	6	7	8	9
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	RETURN REASON CODE	ORIGINAL ENTRY TRACE NUMBER	DATE OF DEATH	ORIGINAL RECEIVING DFI IDENTIFICATION	ORIGINAL FORWARD ENTRY PAYMENT AMOUNT	ADDENDA INFORMATION	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	O	R	R	O	M
<i>Contents</i>	7 <sup>1</sup>	99 <sup>1</sup>	Alphameric	Numeric <sup>1</sup>	YYMMDD <sup>2</sup>	TTTTAAAA <sup>3</sup>	\$\$\$\$\$\$\$\$ <sup>4</sup>	Alphameric	Numeric
<i>Length</i>	1	2	3	15	6	8	10	34	15
<i>Position</i>	01-01	02-03	04-06	07-21	22-27	28-35	36-45	46-79	80-94

1 Copy data from positions 80-94 of the Entry Detail Record.

2 To be used only with Return Reason Code R1/4 or R15.

3 Copy data from positions 04-11 of the original Entry Detail Record.

4 Copy data from positions 30-39 of the original Entry Detail Record.

## PART 4.4 Dishonored Return Entries

The following specifications apply to dishonored Return Entries:

- Each dishonored Return Entry that is initiated by an ODFI must be in the format and sequence defined within this Appendix Four.
- Terms used in the format have the meanings defined in Appendix Three (ACH Record Format Specifications).
- The Transaction Code used in the Entry Detail Record must be:
  - 21 or 26 for Demand Accounts,
  - 31 or 36 for Savings Accounts,
  - 41 or 46 for General Ledger Accounts, or
  - 51 or 56 for Loan Accounts.

- Addenda Type Code “99” must be used to indicate that the Addenda Record contains return information.

- The following fields of the Addenda Record must be filled when originating a dishonored Return Entry:

- Positions 39 - 53 Return Trace Number
- Positions 54 - 56 Return Settlement Date
- Positions 57 - 58 Return Reason Code

The initiation of a dishonored Return Entry with Return Reason Code R68 constitutes a certification by the ODFI that the Return was untimely.

**SUBPART 4.4.1 Company/Batch Header Record Format for Dishonored Return**  
*(excludes IAT Entries)*

**DISHONORED RETURNS — COMPANY/BATCH HEADER RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	COMPANY NAME	COMPANY DISCRETIONARY DATA	COMPANY IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	COMPANY DESCRIPTIVE DATE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	O	M	M	M	O	R	Inserted by ACH Operator	M	M	M
<i>Contents</i>	'5'	Numeric	Alphameric	Alphameric	Alphameric	Alphameric	Alphameric	Alphameric	YYMMDD	Numeric	Alphameric <sup>1</sup>	TTTTAAAA <sup>2</sup>	Numeric <sup>3</sup>
<i>Length</i>	1	3	16	20	10	3	10	6	6	3	1	8	7
<i>Position</i>	01-01	02-04	05-20	21-40	41-50	51-53	54-63	64-69	70-75	76-78	79-79	80-87	88-94

NOTE: For Dishonored Return Entries, each field of the Company/Batch Header Record remains unchanged from the Return Entry, unless otherwise noted.

1 Changed to reflect the Originator Status Code of the institution initiating the Dishonored Return Entry (i.e., the RDFI of the Return Entry).

2 Changed to reflect the Routing Number of the institution initiating the Dishonored Return Entry (i.e., the RDFI of the Return Entry).

3 Changed to a Batch Number assigned by the institution preparing the Dishonored Return Entry.

## SUBPART 4.4.2 Corporate Entry Detail Record Format for Dishonored Returns

## DISHONORED RETURNS — CORPORATE ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	TOTAL AMOUNT	IDENTIFICATION NUMBER	NUMBER OF ADDENDA RECORDS	RECEIVING COMPANY NAME/ID NUMBER	RESERVED	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	O	M	R	N/A	R	M	M
<i>Contents</i>	'6'	Numeric	TTTTAAAA <sup>1</sup>	Numeric <sup>2</sup>	Alphanumeric	\$\$\$\$\$\$\$¢	Alphanumeric	Numeric	Alphanumeric	Blank	Alphanumeric	'1'	Numeric <sup>3</sup>
<i>Length</i>	1	2	8	1	17	10	15	4	16	2	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-58	59-74	75-76	77-78	79-79	80-94

NOTE: For Dishonored Return Entries, each field of the Corporate Entry Detail Record remains unchanged from the Return entry, unless otherwise noted.

1 Changed to the Routing Number of the institution receiving the Dishonored Return Entry (i.e., the ODFI of the Return Entry).

2 Changed to the Check Digit calculated according to NACHA Standards and based on the Routing Number contained in positions 04-11.

3 Changed to the Trace Number assigned by the institution preparing the Dishonored Return Entry (i.e., the RDFI of the Return Entry).

**SUBPART 4.4.3 Entry Detail Record Format for Dishonored Returns**  
*(excludes IAT Entries)*

**DISHONORED RETURNS — ENTRY DETAIL RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL IDENTIFICATION NUMBER/ IDENTIFICATION NUMBER/ CHECK SERIAL NUMBER	INDIVIDUAL NAME/ RECEIVING COMPANY NAME	DISCRETIONARY DATA/PAYMENT TYPE CODE/ CARD TRANSACTION TYPE CODE	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	O	R	R/M	M	M
<i>Contents</i>	'6'	Numeric	TTTTAAA <sup>1</sup>	Numeric <sup>2</sup>	Alphanumeric	\$\$\$\$\$\$\$¢¢	Alphanumeric	Alphanumeric	Alphanumeric	'1'	Numeric <sup>3</sup>
<i>Length</i>	1	2	8	1	17	10	15	22	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

NOTE: For Dishonored Return Entries, each field of the Entry Detail Record remains unchanged from the Return Entry, unless otherwise noted.

1 Changed to the Routing Number of the institution receiving the Dishonored Return Entry (i.e., the ODFI of the Return Entry).

2 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.

3 Changed to the Trace Number assigned by the institution preparing the Dishonored Return Entry (i.e., the RDFI of the Return Entry).



**SUBPART 4.4.4 Addenda Record Format for Dishonored Returns**  
*(excludes IAT Entries)*

**DISHONORED RETURNS — ADDENDA RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11	12
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	DISHONORED RETURN REASON CODE	ORIGINAL ENTRY TRACE NUMBER	RESERVED	ORIGINAL RECEIVING DFI IDENTIFICATION	RESERVED	RETURN TRACE NUMBER	RETURN SETTLEMENT DATE	RETURN REASON CODE	ADDENDA INFORMATION	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	N/A	R	N/A	M	M	M	O/M	M
Contents	'7'	'99'	Alphameric	Numeric <sup>1</sup>	Blank	TTTTAAAA <sup>2</sup>	Blank	Numeric	Numeric	Alphameric	Alphameric <sup>3</sup>	Numeric <sup>4</sup>
Length	1	2	3	15	6	8	3	15	3	2	21	15
Position	01-01	02-03	04-06	07-21	22-27	28-35	36-38	39-53	54-56	57-58	59-79	80-94

1 Copy data from positions 7-21 of the Addenda Record of the return entry.

2 Copy data from positions 28-35 of the Addenda Record of the return entry.

3 For Automated Dishonored Returns bearing Return Reason Code R69 (Field Errors) this field (positions 59-79) must contain the code(s) to indicate the field(s) in which erroneous information is located.

4 For Automated Dishonored Returns, changed to reflect the new Trace Number found in positions 80-94 of the Entry Detail Record or Corporate Entry Detail Record.

## **PART 4.5 Contested Dishonored ACH Return Entries**

### ***SUBPART 4.5.1 Contested Dishonored Return Entries***

- Each contested dishonored Return Entry initiated by an RDFI must be in the format and sequence set forth in this Appendix Four.
- Terms used in the format have the meanings set forth in Appendix Three (ACH Record Format Specifications).
- The initiation of a contested dishonored Return Entry constitutes a certification by the RDFI that the Entry was returned in accordance with these Rules.
- The Transaction Code used in the Entry Detail Record must be:
  - 21 or 26 for Demand Accounts,
  - 31 or 36 for Savings Accounts,
  - 41 or 46 for General Ledger Accounts, or
  - 51 or 56 for Loan Accounts.
- Addenda Type Code “99” must be used to indicate that the addenda record contains return information.

- The following fields of the Addenda Record must be filled when originating a contested Dishonored Return Entry:

– Positions 22 – 27	Date Original Entry Returned
– Positions 36 – 38	Original Settlement Date (Julian Date)
– Positions 39 – 53	Return Trace Number
– Positions 54 – 56	Return Settlement Date
– Positions 57 – 58	Return Reason Code
– Positions 59 – 73	Dishonored Return Trace Number
– Positions 74 – 76	Dishonored Return Settlement Date
– Positions 77 – 78	Dishonored Return Reason Code

### ***SUBPART 4.5.2 Corrected Return Entries***

An RDFI may generate a corrected Return by creating a contested dishonored Return with Return Reason Code “R74” in accordance with the format requirements in this Appendix Four. The corrected Return Entry must provide the correcting data.

**SUBPART 4.5.3 Company/Batch Header Record Format for Contested Dishonored Return**  
(excludes IAT Entries)

**CONTESTED DISHONORED RETURN — COMPANY/BATCH HEADER RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	COMPANY NAME	COMPANY DISCRETIONARY DATA	COMPANY IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	COMPANY DESCRIPTIVE DATE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
Field Inclusion Requirement	M	M	M	O	M	M	M	O	R	Inserted by ACH Operator	M	M	M
Contents	'5'	Numeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	YYMMDD	Numeric	Alphanumeric <sup>1</sup>	TTTTAAAA <sup>2</sup>	Numeric <sup>3</sup>
Length	1	3	16	20	10	3	10	6	6	3	1	8	7
Position	01-01	02-04	05-20	21-40	41-50	51-53	54-63	64-69	70-75	76-78	79-79	80-87	88-94

NOTE: For Contested Dishonored Return Entries, each field of the Company/Batch Header Record remains unchanged from the Dishonored Return Entry unless, otherwise noted.

1 Changed to reflect the Originator Status Code of the institution initiating the Contested Dishonored Return Entry (i.e., the RDFI of the Dishonored Return Entry).

2 Changed to reflect the Routing Number of the institution initiating the Contested Dishonored Return Entry (i.e., the RDFI of the Dishonored Return Entry).

3 Changed to a Batch Number assigned by the institution preparing the Contested Dishonored Return Entry.

## SUBPART 4.5.4 Corporate Entry Detail Record Format for Contested Dishonored Return

## CONTESTED DISHONORED RETURNS — CORPORATE ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	TOTAL AMOUNT	IDENTIFICATION NUMBER	NUMBER OF ADDENDA RECORDS	RECEIVING COMPANY NAME/ID NUMBER	RESERVED	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	O	M	R	N/A	R	M	M
<i>Contents</i>	'6'	Numeric	TTTTAAAA <sup>1</sup>	Numeric <sup>2</sup>	Alphameric	\$\$\$\$\$\$\$\$\$	Alphameric	Numeric	Alphameric	Blank	Alphameric	'1'	Numeric <sup>3</sup>
<i>Length</i>	1	2	8	1	17	10	15	4	16	2	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-58	59-74	75-76	77-78	79-79	80-94

NOTE: For Contested Dishonored Return Entries, each field of the Corporate Entry Detail Record remains unchanged from the Dishonored Return entry, unless otherwise noted.

1 Changed to the Routing Number of the institution receiving the Contested Dishonored Return Entry (i.e., the ODFI of the Dishonored Return Entry).

2 Changed to the Check Digit calculated according to NACHA Standards and based on the Routing Number contained in positions 04-11.

3 Changed to the Trace Number assigned by the institution preparing the Contested Dishonored Return Entry (i.e., the RDFI of the Dishonored Return Entry).

**SUBPART 4.5.5 Entry Detail Record Format for Contested Dishonored Return**  
(excludes IAT Entries)

**CONTESTED DISHONORED RETURNS — ENTRY DETAIL RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL IDENTIFICATION NUMBER/ CHECK SERIAL NUMBER	INDIVIDUAL NAME/ RECEIVING COMPANY NAME	DISCRETIONARY DATA/PAYMENT TYPE CODE/ CARD TRANSACTION TYPE CODE	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	O	R	R	R/M	M
<i>Contents</i>	'6'	Numeric	TTTTAAA <sup>1</sup>	Numeric <sup>2</sup>	Alphabetic	\$\$\$\$\$\$\$ <sup>3</sup>	Alphabetic	Alphabetic	Alphabetic	'1'	Numeric <sup>3</sup>
<i>Length</i>	1	2	8	1	17	10	15	22	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

**NOTE:** For Contested Dishonored Return Entries, each field of the Entry Detail Record remains unchanged from the Dishonored Return Entry, unless otherwise noted.

- 1 Changed to the Routing Number of the institution receiving the Contested Dishonored Return Entry (i.e., the ODFI of the Dishonored Return Entry).
- 2 Changed to the Check Digit calculated according to NACHA Standards and based on the Routing Number contained in positions 04-11.
- 3 Changed to the Trace Number assigned by the institution preparing the Contested Dishonored Return Entry (i.e., the RDFI of the Dishonored Return Entry).

**SUBPART 4.5.6 Addenda Record for Contested Dishonored Return**  
*(excludes IAT Entries)*

**CONTESTED DISHONORED RETURNS — ADDENDA RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	CONTESTED DISHONORED RETURN REASON CODE	ORIGINAL ENTRY TRACE NUMBER	DATE ORIGINAL ENTRY RETURNED	ORIGINAL RECEIVING DFI IDENTIFICATION	ORIGINAL SETTLEMENT DATE (JULIAN)	RETURN TRACE NUMBER	RETURN SETTLEMENT DATE	RETURN REASON CODE	DISHONORED RETURN TRACE NUMBER	DISHONORED RETURN SETTLEMENT DATE	DISHONORED RETURN REASON CODE	RESERVED	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	O	R	M	M	M	M	M	M	M	N/A	M
<i>Contents</i>	'7'	'99'	Alphanumeric	Numeric <sup>1</sup>	YYMMDD <sup>2</sup>	TTTTAAAA <sup>3</sup>	Numeric <sup>2</sup>	Numeric	Numeric	Alphanumeric	Numeric	Numeric	Alphanumeric	Blank	Numeric <sup>4</sup>
<i>Length</i>	1	2	3	15	6	8	3	15	3	2	15	3	2	1	15
<i>Position</i>	01-01	02-03	04-06	07-21	22-27	28-35	36-38	39-53	54-56	57-58	59-73	74-76	77-78	79-79	80-94

1 Copy data from positions 7-21 of the Addenda Record of the Dishonored Return Entry.

2 Mandatory only if Contested Dishonored Return Reason Code is R73.

3 Copy data from positions 28-35 of the Addenda Record of the Dishonored Return Entry.

4 For Automated Contested Dishonored Returns changed to reflect the new Trace Number found in positions 80-94 of the Entry Detail Record or Corporate Entry Detail Record.

## APPENDIX FIVE

# Notification of Change

A Notification of Change may be created by an RDFI to notify the ODFI that a posted Entry or Prenotification Entry contains invalid or erroneous information and should be changed.

### PART 5.1 Notification of Change

A Notification of Change must comply with the following specifications:

- The Company/Batch Header Record, Entry Detail Record, and Addenda Record formats as defined in this Appendix Five must be used.
- The Standard Entry Class Code “COR” must be used to denote a batch containing corrected information.
- The Transaction Code must be:
  - 21 or 26 for Demand Accounts,
  - 31 or 36 for Savings Accounts,

- 41 or 46 for General Ledger Accounts, or
- 51 or 56 for Loan Accounts.

- The Amount field must be zero.
- Addenda Type Code 98 must be used to indicate that the Addenda Record contains corrected information.
- Field 3 of the Addenda Record must contain the appropriate Change Code from the Table in this Appendix Five indicating the information to be corrected.
- Field 7 of the Addenda Record must contain the corrected information corresponding to the Change Code used in Field 3.

### PART 5.2 Refused Notification of Change

A refused Notification of Change is created by an ODFI to refuse a Notification of Change Entry containing incorrect or incomplete information. Each refused Notification of Change Entry must be in the format and sequence set forth in this Appendix Five and must contain the reason(s) for the refusal of the Notification of Change Entry.



## PART 5.3 Table of Change Codes

CHANGE CODES FOR NOTIFICATION OF CHANGE ENTRIES							EXAMPLES
CODE	DESCRIPTION	INITIATED BY	CORRECTED DATA	ENTRY TYPE	TIME FRAME	NOTES	
C01	Incorrect DFI Account Number	RDFI	Correct DFI Account Number appears in first 17 positions of the Corrected Data Field.	NOC (COR)	2 Banking Days from original Entry Settlement Date	Time frame not applicable for merger or acquisition. IAT: For Outbound IAT entries, the correct Foreign Receiver's Account Number will appear in the first (left justification) 35 positions of the Corrected Data Field.	This code would also be used when an Account Number is incorrectly formatted.
C02	Incorrect Routing Number	RDFI	Correct Routing Number (including Check Digit) appears in first nine positions of the Corrected Data Field.	NOC (COR)	2 Banking Days from original Entry Settlement Date	Time frame not applicable for merger or acquisition. IAT: For Outbound IAT entries, this field refers to the Gateway Operator's routing number.	Due to merger or consolidation, a once valid Routing Number must be changed.
C03	Incorrect Routing Number and Incorrect DFI Account Number	RDFI	Correct Routing Number (including Check Digit) appears in first nine positions of the Corrected Data Field--correct DFI Account Number appears in the 13th through 29th position of same field with a space in the 10th, 11th, and 12th positions.	NOC (COR)	2 Banking Days from original Entry Settlement Date	Time frame not applicable for merger or acquisition. IAT: This change code should not be used for Outbound IAT entries due to field length limitations.	Due to merger or consolidation, a once valid Routing Number must be changed, and in most instances this change will cause a change to the account numbering structure.
C04	Incorrect Individual Name/Receiving Company Name	RDFI	Correct Individual Name/Receiving Company Name appears in first 22 positions of the Corrected Data Field.	NOC (COR)	2 Banking Days from original Entry Settlement Date	Time frame not applicable for merger or acquisition. IAT: For IAT Entries, the Correct Individual Name/Receiving Company Name appears in the first 35 positions of the Corrected Data Field.	
C05	Incorrect Transaction Code	RDFI	Correct Transaction Code appears in first two positions of the Corrected Data Field.	NOC (COR)	2 Banking Days from original Entry Settlement Date	Time frame not applicable for merger or acquisition.	The account number contained in the Entry is a checking account number but the Entry contains a Transaction Code for a savings account, or the account number contained in the Entry is a savings account number but the Entry contains a Transaction Code for a checking account.

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PART 5.3 Table of Change Codes (continued)

CODE	DESCRIPTION	INITIATED BY	CORRECTED DATA	ENTRY TYPE	TIME FRAME	NOTES	EXAMPLES
C06	Incorrect DFI Account Number and Incorrect Transaction Code	RDFI	Correct DFI Account Number appears in the first 17 positions of the Corrected Data Field -- correct Transaction Code appears in the 21st and 22nd positions of the same field with spaces in the 18th, 19th, and 20th positions.	NOC (COR)	2 Banking Days from original Entry Settlement Date	Time frame not applicable for merger or acquisition. IAT: This change code should not be used for Outbound IAT entries due to field length limitations.	The account number contained in the Entry is incorrect and the Transaction Code does not match the type of account, i.e. the account number structure is a checking account number but is not a valid account number and the Transaction Code contained in the Entry is for a savings account.
C07	Incorrect Routing Number, Incorrect DFI Account Number, and Incorrect Transaction Code	RDFI	Correct Routing Number (including Check Digit) appears in the first nine positions of the Corrected Data Field -- correct DFI Account Number appears in the 10th through 26th positions of the same field -- and correct Transaction Code appears in the 27th and 28th positions of the same field.	NOC (COR)	2 Banking Days from original Entry Settlement Date	Time frame not applicable for merger or acquisition. IAT: This change code should not be used for Outbound IAT entries due to field length limitations.	An Entry posting to a savings account should actually be going to a demand account or vice versa, and the routing number and account number are also incorrect.
C08	Incorrect Receiving DFI Identification (IAT only)	RDFI	The correct Receiving DFI Identification appears in the first 34 positions of the Corrected Data Field.	NOC (COR)	2 Banking Days from original Entry Settlement Date	Time frame not applicable for merger or acquisition.	
C09	Incorrect Individual Identification Number <i>Incorrect Individual Identification Number/ Incorrect Receiver Identification Number</i>	RDFI	Correct number appears in first 22 positions of the Corrected Data Field.	NOC (COR)	2 Banking Days from original Entry Settlement Date	Time frame not applicable for merger or acquisition. <i>IAT: For IAT Entries, the correct Receiver Identification Number appears in the first 15 positions of the Corrected Data Field.</i>	Individual's Identification Number within the Company is incorrect, either on initial input or through merger or consolidation.

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PART 5.3 Table of Change Codes (continued)

CODE	DESCRIPTION	INITIATED BY	CORRECTED DATA	ENTRY TYPE	TIME FRAME	NOTES	EXAMPLES
C13	Addenda Format Error	RDFI	Information in the Entry Detail Record was correct and the Entry was able to be processed and posted by the RDFI. However, information found in the Addenda Record was unclear or was formatted incorrectly.	NOC (COR)	2 Banking Days from original Entry Settlement Date	Time frame not applicable for merger or acquisition.	A CCD Entry is received with an "05" Addenda Type Code, but the addenda information does not contain payment related ANSI ASC X12 data segments or NACHA endorsed banking conventions.
C14	Incorrect SEC Code for Outbound International Payment	Gateway	The RDFI/Gateway has identified the Entry as an Outbound international payment and is requesting that future Entries be identified as IAT Entries and convey information required by the Gateway for OFAC compliance. The value "LAT" must appear within the first 3 positions of the Corrected Data Field	NOC (COR)	2 Banking Days from original Entry Settlement Date	This Change Code may only be used by a Gateway to request a change to the IAT format. It may not be used by RDFIs to request other changes involving the use of Standard Entry Class Codes.	A CCD or PPD Entry is received by the RDFI and is posted to the Receiver's account, but the Receiver has also placed a standing instruction with the RDFI to forward all funds from the entry to the Receiver's account in another country.

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**PART 5.3 Table of Change Codes (continued)**

CODE	DESCRIPTION	INITIATED BY	CORRECTED DATA	ENTRY TYPE	TIME FRAME	NOTES	EXAMPLES
<b>CHANGE CODES FOR REFUSED NOTIFICATION OF CHANGE ENTRIES</b>							
Change codes C61-C69 are only to be used when refusing a Notification of Change. The refused Notification of Change process can only be used with Reason Codes C61 - C69. If a reason other than those listed (C61 - C69) exists, the Entry should be handled outside of the refused Notification of Change process. (This limitation applies only to the refused Notification of Change process.)							
<b>C61</b>	<b>Misrouted Notification of Change</b>	ODFI		Refused NOC (COR)	15 days from receipt of NOC or corrected NOC	For refused Notification of Change Entries, each field of the Company/Batch Header Record and the Entry Detail Record remain unchanged from the NOC Entry, unless otherwise noted in Appendix Five, part 5.4.	
<b>C62</b>	<b>Incorrect Trace Number</b>	ODFI		Refused NOC (COR)	15 days from receipt of NOC or corrected NOC	For refused Notification of Change Entries, each field of the Company/Batch Header Record and the Entry Detail Record remain unchanged from the NOC Entry, unless otherwise noted in Appendix Five, part 5.4.	
<b>C63</b>	<b>Incorrect Company Identification Number</b>	ODFI		Refused NOC (COR)	15 days from receipt of NOC or corrected NOC	For refused Notification of Change Entries, each field of the Company/Batch Header Record and the Entry Detail Record remain unchanged from the NOC Entry, unless otherwise noted in Appendix Five, part 5.4.	
<b>C64</b>	<b>Incorrect Individual Identification Number/ Identification Number</b>	ODFI		Refused NOC (COR)	15 days from receipt of NOC or corrected NOC	For refused Notification of Change Entries, each field of the Company/Batch Header Record and the Entry Detail Record remain unchanged from the NOC Entry, unless otherwise noted in Appendix Five, part 5.4.	
<b>C65</b>	<b>Incorrectly Formatted Corrected Data</b>	ODFI		Refused NOC (COR)	15 days from receipt of NOC or corrected NOC	For refused Notification of Change Entries, each field of the Company/Batch Header Record and the Entry Detail Record remain unchanged from the NOC Entry, unless otherwise noted in Appendix Five, part 5.4.	
<b>C66</b>	<b>Incorrect Discretionary Data</b>	ODFI		Refused NOC (COR)	15 days from receipt of NOC or corrected NOC	For refused Notification of Change Entries, each field of the Company/Batch Header Record and the Entry Detail Record remain unchanged from the NOC Entry, unless otherwise noted in Appendix Five, part 5.4.	

**PART 5.3 Table of Change Codes (continued)**

CODE	DESCRIPTION	INITIATED BY	CORRECTED DATA	ENTRY TYPE	TIME FRAME	NOTES	EXAMPLES
C67	Routing Number Not From Original Entry Detail Record	ODFI		Refused NOC (COR)	15 days from receipt of NOC or corrected NOC	For refused Notification of Change Entries, each field of the Company/Batch Header Record and the Entry Detail Record remain unchanged from the NOC Entry, unless otherwise noted in Appendix Five, part 5.4.	
C68	DFI Account Number Not From Original Entry Detail Record	ODFI		Refused NOC (COR)	15 days from receipt of NOC or corrected NOC	For refused Notification of Change Entries, each field of the Company/Batch Header Record and the Entry Detail Record remain unchanged from the NOC Entry, unless otherwise noted in Appendix Five, part 5.4.	
C69	Incorrect Transaction Code	ODFI		Refused NOC (COR)	15 days from receipt of NOC or corrected NOC	For refused Notification of Change Entries, each field of the Company/Batch Header Record and the Entry Detail Record remain unchanged from the NOC Entry, unless otherwise noted in Appendix Five, part 5.4.	

**PART 5.4 Record Formats for  
Notifications of Change**

The field contents for Notification of Change Entries must match the field contents of the original Entries unless otherwise noted in the following Record formats. (See Appendix Three (ACH Record Format Specifications) for the File Header, Company/Batch Control, and File Control Record formats.)

## SUBPART 5.4.1 Company/Batch Header Record Format for Notification of Change

## NOTIFICATION OF CHANGE — COMPANY/BATCH HEADER RECORD

*(excludes IAT Entries)*

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	COMPANY NAME	COMPANY DISCRETIONARY DATA	COMPANY IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	COMPANY DESCRIPTIVE DATE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	O	M	M	M	O	R	Inserted by ACH Operator	M	M	M
Contents	'5'	Numeric	Alphabetic	Alphabetic	Alphabetic	Alphabetic <sup>1</sup>	Alphabetic <sup>2</sup>	Alphabetic	YYMMDD	Numeric	Alphabetic <sup>3</sup>	TTTTAAAA <sup>4</sup>	Numeric <sup>5</sup>
Length	1	3	16	20	10	3	10	6	6	3	1	8	7
Position	01-01	02-04	05-20	21-40	41-50	51-53	54-63	64-69	70-75	76-78	79-79	80-87	88-94

NOTE: For Notification of Change Entries, each field of the Company/Batch Header Record remains unchanged from the original entry, unless otherwise noted.

1 Contains 'COR' for all Notification of Change Entries.

2 May contain the identification of the ACH Operator converting the entry.

3 Changed to reflect the Originator Status Code of the institution initiating the Notification of Change Entry (i.e., the RDFI of the original entry).

4 Changed to reflect the Routing Number of the institution initiating the Notification of Change Entry.

5 Changed to the batch number assigned by the institution preparing the Automated Notification of Change Entry.



## SUBPART 5.4.2 Company/Batch Header Record Formats for International ACH Transaction (IAT) Notification of Change

## IAT COMPANY/BATCH HEADER RECORD FOR NOTIFICATIONS OF CHANGE

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	IAT INDICATOR	FOREIGN EXCHANGE INDICATOR	FOREIGN EXCHANGE REFERENCE INDICATOR	FOREIGN EXCHANGE REFERENCE	ISO DESTINATION COUNTRY CODE	ORIGINATOR IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	ISO ORIGINATING CURRENCY CODE	ISO DESTINATION CURRENCY CODE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	IDENTIFICATION/ ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
Field Inclusion Requirement	M	M	M	M	R	R	M	M	M	M	M	M	R	Inserted by ACH Operator	M	M	M
Contents	5 <sup>1</sup>	Numeric	Alphanumeric <sup>1</sup>	Alphanumeric	Numeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric <sup>2</sup>	Alphanumeric	Alphanumeric	Alphanumeric	YYMMDD	Numeric	Alphanumeric <sup>3</sup>	TTTTAAAA <sup>4</sup>	Numeric <sup>5</sup>
Length	1	3	16	2	1	15	2	10	3	10	3	3	6	3	1	8	7
Position	01-01	02-04	05-20	21-22	23-23	24-38	39-40	41-50	51-53	54-63	64-66	67-69	70-75	76-78	79-79	80-87	88-94

NOTE: For IAT Notification of Change Entries, each field of the Company/Batch Header Record remains unchanged from the original entry, unless otherwise noted.

1 This field must contain 'IATCOR' for all Notification of Change Entries related to IAT entries.

2 Contains 'COR' for all Notification of Change Entries

3 Changed to reflect the Originator Status Code of the institution initiating the Notification of Change Entry (i.e., the RDFI of the original entry).

4 Changed to reflect the Routing Number of the institution initiating the Notification of Change Entry (i.e., the RDFI of the original entry).

5 Changed to the batch number assigned by the institution preparing the Automated Notification of Change Entry.

## SUBPART 5.4.3 Corporate Entry Detail Record Format for Notification of Change

## NOTIFICATION OF CHANGE — CORPORATE ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	TOTAL AMOUNT	IDENTIFICATION NUMBER	NUMBER OF ADDENDA RECORDS	RECEIVING COMPANY NAME/ID NUMBER	RESERVED	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	O	R	R	N/A	O	M	M
<i>Contents</i>	'6'	Numeric <sup>1</sup>	TTTTAAAA <sup>2</sup>	Numeric <sup>3</sup>	Alphanumeric	0000000000 <sup>4</sup>	Alphanumeric	Numeric	Alphanumeric	Blank	Alphanumeric	'1'	Numeric <sup>5</sup>
<i>Length</i>	1	2	8	1	17	10	15	4	16	2	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-58	59-74	75-76	77-78	79-79	80-94

NOTE: For Notification of Change Entries, each field of the Corporate Entry Detail Record remains unchanged from the original entry, unless otherwise noted.

- 1 Changed to the appropriate Transaction Code. (See Transaction Codes under currently assigned "Code Values" in Appendix Three.)
- 2 Changed to the Routing Number of the institution receiving the Notification of Change Entry (i.e., the ODFI of the original entry).
- 3 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.
- 4 This field must be zero filled.
- 5 Changed to the Trace Number assigned by the institution preparing the Automated Notification of Change Entry.

**SUBPART 5.4.4 Entry Detail Record Format for Notification of Change**  
(excludes IAT Entries)

**NOTIFICATION OF CHANGE — ENTRY DETAIL RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL IDENTIFICATION NUMBER/ IDENTIFICATION NUMBER	INDIVIDUAL NAME/ RECEIVING COMPANY NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	O	R	O	M	M
<i>Contents</i>	'6'	Numeric <sup>1</sup>	TTTTAAAA <sup>2</sup>	Numeric <sup>3</sup>	Alphameric	0000000000 <sup>4</sup>	Alphameric <sup>5</sup>	Alphameric <sup>5</sup>	Alphameric	'1'	Numeric <sup>6</sup>
<i>Length</i>	1	2	8	1	17	10	15	22	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

NOTE: For Notification of Change Entries, each field of the Entry Detail Record remains unchanged from the original entry, unless otherwise noted.

- 1 Changed to the appropriate Notification of Change Entry Transaction Code. (See Transaction Codes under currently assigned "Code Values" in Appendix Three.)
- 2 Changed to the Routing Number of the institution receiving the Notification of Change Entry (i.e., the ODFI of the original entry).
- 3 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.
- 4 This field must be zero filled.
- 5 For CIE and MTE entries, positions 40-54 are used for a 15 character Individual Name, and positions 55-76 are used for a 22 character Individual Identification Number.
- 6 Changed to the Trace Number assigned by the institution preparing the Automated Notification of Change Entry.

## SUBPART 5.4.5 Addenda Record Format for Notification of Change

## NOTIFICATION OF CHANGE — ADDENDA RECORD

FIELD	1	2	3	4	5	6	7	8	9
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	CHANGE CODE	ORIGINAL ENTRY TRACE NUMBER	RESERVED	ORIGINAL RECEIVING DFI IDENTIFICATION	CORRECTED DATA	RESERVED	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	N/A	R	M	N/A	M
<i>Contents</i>	'7'	'98'	Alphanumeric	Numeric <sup>1</sup>	Blank	TTTTAAAA <sup>2</sup>	Alphanumeric	Blank	Numeric
<i>Length</i>	1	2	3	15	6	8	29	15	15
<i>Position</i>	01-01	02-03	04-06	07-21	22-27	28-35	36-64	65-79	80-94

1 Copy data from positions 80-94 of the original Entry Detail Record or Corporate Entry Detail Record.

2 Copy data from positions 04-11 of the original Entry Detail Record (the RDFI's Routing Number).

## SUBPART 5.4.6 Sequence of Records for Notification of Change for IAT Entries

## IAT NOTIFICATION OF CHANGE — ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	GO IDENTIFICATION/ RECEIVING DFI IDENTIFICATION	CHECK DIGIT	NUMBER OF ADDENDA RECORDS	RESERVED	AMOUNT	FOREIGN RECEIVER'S ACCOUNT NUMBER/ DFI ACCOUNT NUMBER	RESERVED	GATEWAY OPERATOR OFAC SCREENING INDICATOR	SECONDARY OFAC SCREENING INDICATOR	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	M	N/A	M	M	N/A	O	O	M	M
<i>Contents</i>	'6'	Numeric <sup>1</sup>	TTTTAAAA <sup>2</sup>	Numeric <sup>3</sup>	Numeric	Blank	0000000000 <sup>4</sup>	Alphanumeric	Blank	Alphanumeric	Alphanumeric	Numeric	Numeric <sup>5</sup>
<i>Length</i>	1	2	8	1	4	13	10	35	2	1	1	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-16	17-29	30-39	40-74	75-76	77-77	78-78	79-79	80-94

NOTE: For IAT Notification of Change Entries, each field of the Entry Detail Record remains unchanged from the original entry, unless otherwise noted.

1 Changed to the appropriate Notification of Change Entry Transaction Code. (See Transaction Codes under currently assigned "Code Values" in Appendix Threc.)

2 Changed to the Routing Number of the institution receiving the Notification of Change Entry (i.e., the ODFI of the original entry).

3 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.

4 This field must be zero filled.

5 Changed to the Trace Number assigned by the institution preparing the Automated Notification of Change Entry.

## SUBPART 5.4.7 Addenda Record Format for IAT NOCs

## IAT ADDENDA RECORD FOR NOC ENTRIES

FIELD	1	2	3	4	5	6	7	8	9
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	CHANGE CODE	ORIGINAL ENTRY TRACE NUMBER	RESERVED	ORIGINAL RECEIVING DFI IDENTIFICATION	CORRECTED DATA	RESERVED	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	N/A	R	M	N/A	M
Contents	7 <sup>1</sup>	'98'	Alphameric	Numeric <sup>1</sup>	Blank	TTTTAAAA <sup>2</sup>	Alphameric	Blank	Numeric
Length	1	2	3	15	6	8	35	9	15
Position	01-01	02-03	04-06	07-21	22-27	28-35	36-70	71-79	80-94

1 Copy data from positions 80-94 of the IAT Entry Detail Record.

2 Copy data from positions 04-11 of the original Entry Detail Record (the RDT's Routing Number)

**SUBPART 5.4.8 Company/Batch Header Record Format for Notification of Change**  
*(excludes IAT Entries)*

**REFUSED NOTIFICATION OF CHANGE — COMPANY/BATCH HEADER RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	COMPANY NAME	COMPANY DISCRETIONARY DATA	COMPANY IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	COMPANY DESCRIPTIVE DATE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	O	M	M	M	O	R	Inserted by ACH Operator	M	M	M
<i>Contents</i>	'5'	Numeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	YYMMDD	Numeric	Alphanumeric <sup>1</sup>	TTTTAAAA <sup>2</sup>	Numeric <sup>3</sup>
<i>Length</i>	1	3	16	20	10	3	10	6	6	3	1	8	7
<i>Position</i>	01-01	02-04	05-20	21-40	41-50	51-53	54-63	64-69	70-75	76-78	79-79	80-87	88-94

NOTE: For Refused NOC Entries, each field of the Company/Batch Header Record remains unchanged from the NOC entry, unless otherwise noted.

1 Changed to reflect the Originator Status Code of the institution initiating the Refused NOC Entry (i.e., the RDFI of the NOC Entry).

2 Changed to reflect the Routing Number of the institution initiating the Refused NOC Entry (i.e., the RDFI of the NOC Entry).

3 Changed to the Batch Number assigned by the institution preparing the Refused NOC Entry.



## SUBPART 5.4.9 Corporate Entry Detail Record Format for Refused Notification of Change

## REFUSED NOTIFICATION OF CHANGE — CORPORATE ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	TOTAL AMOUNT	IDENTIFICATION NUMBER	NUMBER OF ADDENDA RECORDS	RECEIVING COMPANY NAME/ID NUMBER	RESERVED	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O	R	R	N/A	R	M	M
Contents	'6'	Numeric	TTTTAAAA <sup>1</sup>	Numeric <sup>2</sup>	Alphameric	\$\$\$\$\$\$\$ <sup>3</sup>	Alphameric	Numeric	Alphameric	Blank	Alphameric	'1'	Numeric <sup>3</sup>
Length	1	2	8	1	17	10	15	4	16	2	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-58	59-74	75-76	77-78	79-79	80-94

NOTE: For Refused NOC Entries, each field of the Corporate Entry Detail Record remains unchanged from the NOC entry, unless otherwise noted.

1 Changed to the Routing Number of the institution receiving the Refused NOC Entry (i.e., the ODFI of the NOC Entry).

2 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.

3 Changed to the Trace Number assigned by the institution preparing the Refused NOC Entry (i.e., the RDFI of the NOC entry).

**SUBPART 5.4.10 Entry Detail Record Format for Refused Notification of Change**  
*(excludes IAT Entries)*

**REFUSED NOTIFICATION OF CHANGE — ENTRY DETAIL RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL IDENTIFICATION NUMBER/ IDENTIFICATION NUMBER	INDIVIDUAL RECEIVING COMPANY NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	O	R	R	M	M
<i>Contents</i>	'6'	Numeric	TTTTAAAA <sup>1</sup>	Numeric <sup>2</sup>	Alphanumeric	\$\$\$\$\$\$\$%	Alphanumeric	Alphanumeric	Alphanumeric	'1'	Numeric <sup>3</sup>
<i>Length</i>	1	2	8	1	17	10	15	22	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

NOTE: For Refused NOC Entries, each field of the Entry Detail Record remains unchanged from the original entry, unless otherwise noted.

1 Changed to the Routing Number of the institution receiving the Refused NOC Entry (i.e., the ODFI of the NOC Entry).

2 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.

3 Changed to the Trace Number assigned by the institution preparing the Refused NOC Entry (i.e., the RDFI of the NOC Entry).

**SUBPART 5.4.11 Addenda Record Format for Refused Notification of Change**  
*(excludes IAT Entries)*

**REFUSED NOTIFICATION OF CHANGE — ADDENDA RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	REFUSED COR CODE	ORIGINAL ENTRY TRACE NUMBER	RESERVED	ORIGINAL RECEIVING DFI IDENTIFICATION	CORRECTED DATA	CHANGE CODE	COR TRACE SEQUENCE NUMBER	RESERVED	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	N/A	R	M	M	M	N/A	M
<i>Contents</i>	'7'	'98'	Alphameric	Numeric <sup>1</sup>	Blank	TTTTAAAA	Alphameric	Alphameric <sup>2</sup>	Numeric	Blank	Numeric
<i>Length</i>	1	2	3	15	6	8	29	3	7	5	15
<i>Position</i>	01-01	02-03	04-06	07-21	22-27	28-35	36-64	65-67	68-74	75-79	80-94

NOTE: This record format should only be used in the refusal of a Notification of Change Entry.

1 Copy data from positions 07-21 of the Addenda Record of the original Notification of Change.

2 Copy data from positions 04-06 of the Addenda Record of the original Notification of Change.

## APPENDIX SIX

# Acknowledgment Entries

An Acknowledgment Entry is created by an RDFI to provide notice to the ODFI that a corporate credit entry initiated using a CCD or CTX format has been received by the RDFI.

### PART 6.1 Acknowledgment Entries

An Acknowledgment Entry must comply with the following specifications:

- The Company/Batch Header Record, Entry Detail Record, and Addenda Record formats defined in this Appendix Six must be used.
- The Standard Entry Class Code “ACK” or “ATX” must be used to denote a batch containing Acknowledgment Entries.
- The Transaction Code must be either “24” or “34”.
- The amount field must be zero.
- An Acknowledgement Entry may contain one optional Addenda Record. Addenda Type Code “05” is used to indicate that the Addenda Record contains acknowledgment information.
- For an ACK+ or ATX+, Field 3 of the Addenda Record contains an ANSI ASC X12 REF (Reference) Data Segment to acknowledge the RDFI’s receipt of a financial EDI credit payment as agreed by the trading partners.

### PART 6.2 Refused Acknowledgment Entries

A Refused Acknowledgment Entry is created by an ODFI to refuse an Acknowledgment Entry that is misrouted or contains incorrect or incomplete information. Each Refused Acknowledgment Entry Transmitted by an ODFI must be in the format and sequence defined in this Appendix Six and must contain the reason(s) for the refusal of the Acknowledgment Entry.

### PART 6.3 Table of Codes for Refused Acknowledgment Entries

*Table of Codes for Refused Acknowledgment Entries*

CODE	MEANING
Codes A1 - A3 are only to be used when refusing an Acknowledgment Entry.	
A1	Misrouted Acknowledgment Entry
A2	Incorrect Trace Number
A3	Incorrect Company Identification Number

### PART 6.4 Record Formats for Acknowledgment and Refused Acknowledgment Entries

Unless otherwise noted in the following Record formats, the field contents for an Acknowledgment Entry and a Refused Acknowledgment Entry match the field contents of the original CCD or CTX Entry to which the Acknowledgement Entry relates. (See Appendix Three, ACH Record Format Specifications, for the File Header, Company/Batch Control, and File Control Record formats.)

## SUBPART 6.4.1 Company/Batch Header Record Format for Acknowledgment Entries (ACK and ATX)

## ACKNOWLEDGMENT ENTRIES — COMPANY/BATCH HEADER RECORD FORMAT (ACK and ATX)

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	COMPANY NAME	COMPANY DISCRETIONARY DATA	COMPANY IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	COMPANY DESCRIPTIVE DATE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
Field Inclusion Requirement	M	M	M	O	M	M	M	O	R	Inserted by ACH Operator	M	M	M
Contents	'5'	Numeric <sup>1</sup>	Alphameric	Alphameric	Alphameric	Alphameric	Alphameric	Alphameric	YYMMDD	Numeric	Alphameric <sup>2</sup>	TTTTAAAA <sup>3</sup>	Numeric <sup>4</sup>
Length	1	3	16	20	10	3	10	6	6	3	1	8	7
Position	01-01	02-04	05-20	21-40	41-50	51-53	54-63	64-69	70-75	76-78	79-79	80-87	88-94

NOTE: For Acknowledgment Entries, each field of the Company/Batch Header Record remains unchanged from the original entry, unless otherwise noted.

1 Contains '200' for Acknowledgment Entries.

2 Changed to reflect the Originator Status Code of the institution initiating the Acknowledgment Entry (i.e., the RDFI of the original entry).

3 Changed to reflect the Routing Number of the Institution initiating the Acknowledgment Entry (i.e., the RDFI of the original entry).

4 Changed to the batch number assigned by the institution preparing the Acknowledgment Entry.

## SUBPART 6.4.2 Entry Detail Record Format for ACK Entries

## ACK ENTRIES — ENTRY DETAIL RECORD FORMAT

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	ORIGINAL ENTRY TRACE NUMBER	RECEIVING COMPANY NAME	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	M	R	O	M	M
<i>Contents</i>	'6'	Numeric <sup>1</sup>	TTTTAAAA <sup>2</sup>	Numeric <sup>3</sup>	Alphanumeric	\$\$\$\$\$\$\$\$\$€€	Numeric <sup>4</sup>	Alphanumeric	Alphanumeric	Numeric	Numeric <sup>5</sup>
<i>Length</i>	1	2	8	1	17	10	15	22	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

## ACK ENTRIES — ADDENDA RECORD FORMAT

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
<i>Field Inclusion Requirement</i>	M	M	O	M	M
<i>Contents</i>	'7'	'05'	Alphanumeric	Numeric	Numeric
<i>Length</i>	1	2	80	4	7
<i>Position</i>	01-01	02-03	04-83	84-87	88-94

NOTE: For ACK Entries, each field of the Entry Detail Record remains unchanged from the original entry, unless otherwise noted.

1 Changed to the appropriate ACK Entry Transaction Code. (See Transaction Codes under currently assigned "Code Values" in Appendix Three.)

2 Changed to the Routing Number of the Institution receiving the ACK Entry (i.e., the ODFI of the original entry).

3 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.

4 Copy data from positions 80-94 of the original Entry Detail Record.

5 Changed to the Trace Number assigned by the institution preparing the ACK entry.

## SUBPART 6.4.3 Corporate Entry Detail Record Format for ATX Entries

## ATX ENTRIES — CORPORATE ENTRY DETAIL RECORD FORMAT

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	TOTAL AMOUNT	ORIGINAL ENTRY TRACE NUMBER	NUMBER OF ADDENDA RECORDS	RECEIVING COMPANY NAME/ID NUMBER	RESERVED	DISCRETIONARY DATA	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	M	M	R	N/A	O	M	M
<i>Contents</i>	'6'	Numeric <sup>1</sup>	TTTTAAA <sup>2</sup>	Numeric <sup>3</sup>	Alphabetic	\$\$\$\$\$\$\$ <sup>6</sup>	Numeric <sup>4</sup>	Numeric	Alphabetic	Blank	Alphabetic	Numeric	Numeric <sup>5</sup>
<i>Length</i>	1	2	8	1	17	10	15	4	16	2	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-58	59-74	75-76	77-78	79-79	80-94

## ATX ENTRIES — ADDENDA RECORD FORMAT

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
<i>Field Inclusion Requirement</i>	M	M	O	M	M
<i>Contents</i>	'7'	'05'	Alphabetic	Numeric	Numeric
<i>Length</i>	1	2	80	4	7
<i>Position</i>	01-01	02-03	04-83	84-87	88-94

NOTE: For ATX Entries, each field of the Corporate Entry Detail Record remains unchanged from the original entry, unless otherwise noted.

1 Changed to the appropriate ATX Entry Transaction Code. (See Transaction Codes under currently assigned "Code Values" in Appendix Three.)

2 Changed to the Routing Number of the institution receiving the ATX Entry (i.e., the ODFI of the original entry).

3 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.

4 Copy data from positions 80-94 of the original Corporate Entry Detail Record.

5 Changed to the Trace Number assigned by the institution preparing the ATX entry.



## SUBPART 6.4.4 Company/Batch Header Record Format for Refused Acknowledgment Entries

## REFUSED ACKNOWLEDGMENT ENTRIES — COMPANY/BATCH HEADER RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	COMPANY NAME	COMPANY DISCRETIONARY DATA	COMPANY IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	COMPANY DESCRIPTIVE DATE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	O	M	M	M	O	R	Inserted by ACH Operator	M	M	M
<i>Contents</i>	'5'	Numeric	Alphabetic	Alphabetic	Alphabetic	Alphabetic	Alphabetic	Alphabetic	YYMMDD	Numeric	Alphabetic <sup>1</sup>	TTTTAAAA <sup>2</sup>	Numeric <sup>3</sup>
<i>Length</i>	1	3	16	20	10	3	10	6	6	3	1	8	7
<i>Position</i>	01-01	02-04	05-20	21-40	41-50	51-53	54-63	64-69	70-75	76-78	79-79	80-87	88-94

NOTE: For Refused Acknowledgment Entries, each field of the Company/Batch Header Record remains unchanged from the Acknowledgment entry, unless otherwise noted.

1 Changed to reflect the Originator Status Code of the institution initiating the Refused Acknowledgment Entry (i.e., the RDFI of the Acknowledgment Entry).

2 Changed to reflect the Routing Number of the institution initiating the Refused Acknowledgment Entry (i.e., the RDFI of the Acknowledgment Entry).

3 Changed to the Batch Number assigned by the institution preparing the Refused Acknowledgment Entry.

## SUBPART 6.4.5 Entry Detail Record Format for Refused ACK Entries

## REFUSED ACK ENTRIES — ENTRY DETAIL RECORD FORMAT

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	ORIGINAL ENTRY TRACE NUMBER	RECEIVING COMPANY NAME	REFUSED ACKNOWLEDGMENT CODE	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	M	R	M	M	M
<i>Contents</i>	'6'	Numeric	TTTTAAAA <sup>1</sup>	Numeric <sup>2</sup>	Alphanumeric	\$\$\$\$\$\$\$ <sup>3</sup>	Numeric <sup>3</sup>	Alphanumeric	Alphanumeric	Numeric	Numeric <sup>4</sup>
<i>Length</i>	1	2	8	1	17	10	15	22	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

NOTE: For Refused ACK Entries, each field of the Entry Detail Record remains unchanged from the ACK entry, unless otherwise noted.

- 1 Changed to the Routing Number of the institution receiving the Refused ACK Entry (i.e., the ODFI of the ACK Entry).
- 2 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.
- 3 Copy data from positions 40-54 of the ACK entry.
- 4 Changed to the Trace Number assigned by the institution preparing the Refused ACK Entry (i.e., the RDFI of the ACK Entry).

## SUBPART 6.4.6 Corporate Entry Detail Record Format for Refused ATX Entries

## REFUSED ATX ENTRIES — CORPORATE ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	TOTAL AMOUNT	ORIGINAL ENTRY TRACE NUMBER	NUMBER OF ADDENDA RECORDS	RECEIVING COMPANY NAME/ ID NUMBER	RESERVED	REFUSED ACKNOWLEDGMENT CODE	ADDENDA RECORD INDICATOR	TRACE NUMBER
<i>Field Inclusion Requirement</i>	M	M	M	M	R	M	M	M	R	N/A	M	M	M
<i>Contents</i>	'6'	Numeric	TTTTAAAA <sup>1</sup>	Numeric <sup>2</sup>	Alphameric	\$\$\$\$\$\$\$\$\$ <sup>3</sup>	Numeric <sup>3</sup>	Numeric	Alphameric	Blank	Alphameric	Numeric	Numeric <sup>4</sup>
<i>Length</i>	1	2	8	1	17	10	15	4	16	2	2	1	15
<i>Position</i>	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-58	59-74	75-76	77-78	79-79	80-94

NOTE: For Refused ATX Entries, each field of the Corporate Entry Detail Record remains unchanged from the ATX entry, unless otherwise noted.

1 Changed to the Routing Number of the institution receiving the Refused ATX Entry (i.e., the ODFI of the ATX Entry).

2 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.

3 Copy data from positions 40-54 of ATX entry.

4 Changed to the Trace Number assigned by the institution preparing the Refused ATX Entry (i.e., the RDFI of the ATX entry).

## APPENDIX SEVEN

# Compensation Rules

### PART 7.1 Scope

The rules in this Appendix Seven govern the settlement of claims for compensation between Participating DFIs. These rules apply regardless of the original source or ultimate beneficiary of any Entry, the manner in which the Entry was Transmitted, or the nature of the transaction to which the Entry relates. A compensation claim shall be paid for an Entry only if the loss suffered by the claimant is at least \$200 per that Entry. The amount of loss suffered by a claimant shall be calculated using the applicable formula provided in this Appendix Seven, excluding the administrative fee of \$200 per Entry added to or subtracted from such formula and adding any applicable Deposit Insurance Assessment as described in Subpart 7.5.2 (Deposit Insurance Assessment) of this Appendix Seven.

### PART 7.2 Nature of the Rules

Not every possible scenario concerning a compensation claim is explicitly addressed in this Appendix Seven. When a valid claim for compensation is not covered by these rules, Participating DFIs are expected to settle the claim so that no Participating DFI is unjustly enriched or injured. In general, compensation related to a claim must not exceed the benefit that was received by the Participating DFI obligated to pay compensation. However, compensation may include interest and penalties incurred by a Participating DFI as a result of an overdraft. Payment or a request for payment of compensation under these rules does not constitute and shall not be construed as an admission of negligence or fault on the part of any Participating DFI involved.

### PART 7.3 Manner of Payment

A compensation payment may be made by an Entry or by check. Participating DFIs may alter the manner of payment of compensation by prior mutual agreement.

### PART 7.4 Beneficiaries

Only Participating DFIs have any rights under these rules. These rules do not give any rights to any other person.

### PART 7.5 Definitions

#### ***SUBPART 7.5.1 “Federal Funds Rate”***

means the average of each day’s Federal Funds Rate for the days that a Participating DFI is, under these rules, to include in the applicable formula used to calculate compensation. The Federal Funds Rate is that rate published on a daily basis by the Federal Reserve Bank of New York. For any day on which a published rate is not available, the Federal Funds Rate is considered to be the same as the immediately preceding published rate.

#### ***SUBPART 7.5.2 “Deposit Insurance Assessment”***

means either:

- (1) the amount of the increase, if any, in an FDIC assessment paid or payable by the RDFI because the relevant Entry increased the base upon which the FDIC assessment is calculated. The amount of the increase will be calculated using the assessment rate adopted by the FDIC for the lowest risk classification in its risk-related schedule.

or

- (2) in the case of credit unions, the amount of the increase, if any, in (a) the amount of deposits required to be maintained by the RDFI with the NCUSIF (equaling one percent of the total of the credit union’s insured shares as of the close of the preceding insurance year) because the relevant Entry increased the base upon which the deposits required to be maintained will be calculated, and (b) the increase, if any, in the deposit insurance premium paid or payable by the RDFI to the NCUSIF for that insurance year (equaling one-twelfth of one percent of the credit union’s total insured shares as of the close of the preceding insurance year) because the relevant Entry increased the base upon which the insurance premium will be calculated.

**SUBPART 7.5.3**

Unless otherwise defined, the terms used in this Appendix Seven shall have the meaning ascribed to them in Article Eight (Definitions of Terms Used in These Rules).

**PART 7.6 Back Valuation****SUBPART 7.6.1 Credit Entries**

- (1) An ODFI which Transmitted a credit Entry may request the RDFI to back value the Entry. Generally, such request is accompanied by a payment for the amount of compensation owed according to the formula in (2) below. If compensation is paid, the RDFI shall back value the payment to the date requested, unless one or more of the following conditions exists: (a) the Receiver instructs it not to back value such Entry; (b) the Receiver's account has been closed; or (c) the ODFI requests a back valuation to a date more than one year prior to the effective entry date of the Entry. If compensation is paid, and the RDFI does not back value such Entry, the compensation amount shall be promptly repaid by the RDFI to the ODFI.
- (2) If the RDFI back values the Entry in response to the request of the ODFI, the ODFI shall pay the RDFI compensation according to the following formula (without regard to whether or not the Receiver's account was actually in an overdraft position):

$$\text{Compensation} = \frac{(\text{Dollar Amount of Entry}) (\text{Federal Funds Rate}) (\text{No. of Days Forward Valued})}{360} + \$200$$

**PART 7.7 Forward Valuation**

*Credit Entries* – (1) An ODFI which Transmitted a credit Entry may request the RDFI to adjust the payment to a future value date. The RDFI is not obligated to make such an adjustment. (2) If the RDFI makes the requested adjustment, the RDFI shall, upon receiving a claim for compensation within 90 days from the date on which such adjustment was made, pay the ODFI compensation according to the following formula:

$$\text{Compensation} = \frac{(\text{Dollar Amount of Payment}) (100\% - \text{Reserve Requirement}) (\text{Federal Funds Rate}) (\text{No. of Days Forward Valued})}{360} + (\$200 + \text{Applicable Deposit Insurance Assessment})$$

An RDFI claiming an applicable Deposit Insurance Assessment warrants to the ODFI that such amount has not been and will not be recovered. If an RDFI adjusts the Entry in response to the ODFI's request, the RDFI is entitled to compensation for the applicable Deposit Insurance Assessment even if the ODFI does not claim compensation. However, the RDFI's claim for compensation must be made within 90 days from the date on which the requested adjustment was made.

If a claim for compensation has been made by the ODFI and the compensation is calculated to be zero or a negative number, neither the RDFI nor the ODFI shall pay any compensation unless a claim for an applicable Deposit Insurance Assessment has been made. However, if a claim for an applicable Deposit Insurance Assessment has been made and the compensation is calculated to be a negative number, the ODFI shall pay the RDFI the amount of the compensation calculated, i.e., the absolute value of the negative number calculated, provided such value is \$1000 or greater. If a claim for compensation has not been made by the ODFI and the RDFI has made a claim for an applicable Deposit Insurance Assessment, the ODFI shall pay compensation, provided the value of such claim is \$1000 or greater.

**PART 7.8 Return or Reversal of Erroneous Entry****SUBPART 7.8.1 Credit Entries**

- (1) If an ODFI has Transmitted an erroneous credit Entry and the RDFI returns the Entry according to Article Two, Subsection 2.12.2 (ODFI Request for Return), or if the Entry is reversed according to Article Two, Section 2.9 (Reversing Entries), the RDFI must pay the ODFI compensation according to the following formula, upon receipt of a claim for compensation within 90 days of the Settlement Date of the Return or Reversal.

Compensation =

$$\frac{\begin{aligned} &(\text{Dollar Amount of Erroneous Entry}) \\ &(\text{100\% - Reserve Requirement}) \\ &(\text{Federal Funds Rate}) \\ &(\text{No. of Days From Settlement Date} \\ &\quad \text{of Erroneous Entry to} \\ &\quad \text{Settlement Date of Return or} \\ &\quad \text{Reversal – Not to Exceed 180}) \end{aligned}}{360} + (\$200 + \text{Applicable Deposit Insurance Assessment})$$

An RDFI claiming an applicable Deposit Insurance Assessment warrants to the ODFI that such amount has not been and will not be recovered. If an RDFI adjusts the Entry in response to the ODFI's request, the RDFI is entitled to compensation for the applicable Deposit Insurance Assessment even if the ODFI does not claim compensation. However, the RDFI's claim for compensation must be made within 90 days from the date on which the requested adjustment was made.

If a claim for compensation has been made by the ODFI and the compensation is calculated to be zero or a negative number, neither the RDFI nor the ODFI shall pay any compensation unless a claim for an applicable Deposit Insurance Assessment has been made. However, if a claim for an applicable Deposit Insurance Assessment has been made and the compensation is calculated to be a negative number, the ODFI shall pay the RDFI the amount of the compensation calculated, i.e., the absolute value of the negative number calculated, provided such value is \$1000 or greater. If a claim for compensation has not been made by the ODFI and the RDFI has made a claim for an applicable Deposit Insurance Assessment, the ODFI shall pay compensation, provided the value of such claim is \$1000 or greater.

- (2) If a missent credit Entry is retained by the RDFI for more than 180 days, the Federal Funds Rate means the Federal Funds Rate in effect during the most recent 180 day time period.

#### **SUBPART 7.8.2 Debit Entries**

If an ODFI has Transmitted an erroneous debit Entry and the RDFI returns the Entry according to Article Two, subsection 2.12.2 (ODFI Request for Return), the ODFI must pay the RDFI compensation upon its request according to the following formula:

Compensation =

$$\frac{\begin{aligned} &(\text{Dollar Amount of Erroneous Entry}) \\ &(\text{Federal Funds Rate}) \\ &(\text{No. of Days From Settlement} \\ &\quad \text{Date of Erroneous Entry to} \\ &\quad \text{Settlement Date of Return or} \\ &\quad \text{Reversal – Not to Exceed 180}) \end{aligned}}{360} + (\$200 + \text{Applicable Deposit Insurance Assessment})$$

If a missent debit Entry is retained by the RDFI for more than 180 days, the Federal Funds Rate means the Federal Funds Rate in effect during the most recent 180 day time period.

### **PART 7.9 Change of Beneficiary**

#### **SUBPART 7.9.1 Credit Entries**

If an ODFI has Transmitted a credit Entry to the correct RDFI but the Entry was to the wrong account or omitted account information, and the RDFI adjusts the Entry at the request of the ODFI, the ODFI must pay the RDFI compensation according to the following formula, provided that a request for back valuation is made within 180 days of the effective entry date of the Entry. This part applies whether or not the beneficiary's account was actually in an overdraft position.

Compensation =

$$\frac{\begin{aligned} &(\text{Dollar Amount of Entry}) \\ &(\text{Reserve Requirement}) \\ &(\text{Federal Funds Rate}) \\ &(\text{No. of Days From Receipt to} \\ &\quad \text{Adjustment – Not to exceed 180}) \end{aligned}}{360} + \$200$$

NOTE: For purposes of this rule, "No. of Days" means a period no longer than two business days beyond the date on which an Indemnity is received.

#### **SUBPART 7.9.2 Debit Entries**

If an ODFI has Transmitted a debit Entry to the correct RDFI but the Entry was to the wrong account or omitted account information, and the RDFI adjusts the Entry at the request of the ODFI, the ODFI must pay the RDFI compensation according to the following formula, provided that a request for back valuation is made within 180 days from the effective entry date of the Entry.



$$\begin{array}{rcl}
 \text{Compensation} = & & \\
 (\text{Dollar Amount of Entry}) & & \\
 (\text{Reserve Requirement}) & & \\
 (\text{Federal Funds Rate}) & + & \$200 \\
 (\text{No. of Days From Receipt to} & & \\
 \text{Adjustment – Not to exceed 180}) & & \\
 \hline
 360 & & 
 \end{array}$$

NOTE: For purposes of this rule, “No. of Days” means a period no longer than two business days beyond the date on which an indemnity is received.

## APPENDIX EIGHT

# Rule Compliance Audit Requirements

Participating DFIs, Third-Party Service Providers, and Third-Party Senders must comply with all provisions of these Rules and conduct an audit of such compliance on an annual basis. This audit obligation is not limited to compliance with any specific rule or group of rules, and the descriptions of rules contained within this Appendix Eight are not intended to modify or limit the language of the Rules themselves or the obligation of Participating DFIs, Third-Party Service Providers or Third-Party Senders to comply with, or to audit compliance with, such rules.

This Appendix Eight provides Participating DFIs, Third-Party Service Providers, and Third-Party Senders with highlights of the most critical components of an audit of compliance with these Rules. The requirements relate solely to compliance with these rules and do not address other audit considerations of a financial institution’s ACH policies, procedures or regulatory compliance. For Third-Party Service Providers and Third Party Senders, these audit requirements apply only to the ACH functions that they perform on behalf of a Participating DFI and the performance of any obligations of an ODFI under these Rules. References in this Appendix Eight to audit of an ODFI or RDFI performance therefore also apply to Third-Party Service Providers and Third Party Senders acting on behalf of a Participating DFI.

A Participating DFI may wish to audit other aspects of its ACH operations in conjunction with its annual rules compliance audit. These aspects could include OFAC compliance, ACH business continuity plans, ACH risk management policies, and compliance with 31 C.F.R. Part 210 and the Green Book for processing Federal Government ACH transactions.

### PART 8.1 General Audit Requirements

Each Participating DFI, Third-Party Service Provider, and Third-Party Sender must, in accordance with standard auditing procedures, conduct an internal or external audit of compliance with provisions of the ACH rules in accordance with the requirements of this Appendix Eight. These audit provisions do not prescribe a specific methodology to be used for the completion of an audit but identify key rule provisions that should be examined during the audit process. An annual audit must be conducted under these Rule Compliance Audit Requirements no later than December 31 of each year. This audit must be performed under the direction of the audit committee, audit manager, senior level officer, or independent (external) examiner or auditor of the Participating DFI, Third-Party Service Provider, or Third-Party Sender. The Participating DFI, Third-Party Service Provider or Third-Party Sender must retain proof that it has completed an audit of compliance in accordance with these rules. Documentation supporting the completion of an audit must be (1) retained for a period of six years from the date of the audit, and (2) provided to the National Association upon request. Failure of a Participating DFI to provide proof of completion of an audit according to procedures determined by the National Association may be considered a Class 2 rule violation pursuant to Appendix Ten, subpart 10.4.7.4 (Class 2 Rules Violation).

### PART 8.2 Audit Requirements for All Participating DFIs

Each Participating DFI, Third-Party Service Provider, and Third-Party Sender must conduct the following audit of ACH operations. These audit specifications apply generally to all Participating DFIs, regardless of a Participating DFI’s status as an ODFI or RDFI.



- a. Verify that a Record of each Entry is retained for six years from the date the Entry was Transmitted, except as otherwise expressly provided in these Rules. Verify that a printout or reproduction of the information relating to the Entry can be provided, if requested by the Participating DFI's customer or any other Participating DFI or ACH Operator that originated, Transmitted, or received the Entry. (Article One, subsections 1.4.1 and 1.4.2)
- b. When a Record required by these Rules is created or retained in an Electronic form, verify that the Electronic form (a) accurately reflects the information in the Record, and (b) is capable of being accurately reproduced for later reference, whether by Transmission, printing, or otherwise. (Article One, subsection 1.4.3)
- c. Verify that the Participating DFI conducted an audit of its compliance with the rules in accordance with Appendix Eight (Rule Compliance Audit Requirements) for the previous year. (Article One, subsection 1.2.2)
- d. Verify that required encryption or a secure session is used for banking information transmitted via an Unsecured Electronic Network. (Article One, subsection 1.6)
- e. Verify that the Participating DFI has reported and paid to the National Association (a) all annual fees, and (b) a per-Entry fee for each Entry that is Transmitted or received by the Participating DFI, including those Entries that are not processed through an ACH Operator but are exchanged with another non-affiliated Participating DFI. (Article One, subsection 1.10)
- f. Verify that the Participating DFI has conducted an assessment of the risks of its ACH activities and has implemented a risk management program on the basis of such an assessment. (Article One, subsection 1.2.4)

### PART 8.3 Audit Requirements for RDFIs

In addition to the audit procedures outlined in Parts 8.1 (General Audit Requirements) and 8.2 (Audit Requirements for All Participating DFIs) of this Appendix Eight, all RDFIs and their Third-Party Service Providers must conduct an audit of the following relating to the receipt of ACH entries:

- a. Verify that the account number contained in a Prenotification Entry is for a valid account. If the Prenotification does not contain a valid account number, or is otherwise erroneous or unprocessable, verify that the RDFI Transmits either (a) a Return Entry, or (b) a Notification of Change. (Article Three, section 3.5)
- b. Verify that, if the RDFI chooses to initiate Notifications of Change, such COR Entries are Transmitted within two banking days of the Settlement Date of the entry to which the Notification of Change relates, with the exception of Notifications of Change due to merger, acquisition, or other similar events. (Article Three, subsection 3.9.1)
- c. Verify that, subject to the RDFI's right of return, all types of Entries that comply with these Rules and are received with respect to an account maintained with the RDFI are accepted. Verify that the RDFI handles XCK entries and entries to non-transaction accounts appropriately. (Article Three, subsections 3.1.1 and 3.8.2)
- d. Verify that, subject to the RDFI's right of return, the amount of each credit Entry received from its ACH Operator is made available to the Receiver for withdrawal no later than the Settlement Date of the Entry. In the case of a credit PPD Entry that is made available to the RDFI by its ACH Operator by 5:00 p.m. (RDFI's local time) on the Banking Day prior to the Settlement Date, verify that the amount is made available to the Receiver for withdrawal at the opening of business on the Settlement Date. Verify that debit entries are not

posted prior to the Settlement Date, even if the Effective Date of the Entry is different from the Settlement Date of the Entry. (Article Three, subsections 3.3.1.1, 3.3.1.2, and 3.3.2)

- e. For Consumer Accounts, verify that the RDFI provides or makes available to each of its Receivers required information concerning each credit and debit Entry to a Consumer Account of such Receiver. (Article Three, subsection 3.1.5.1)

For non-Consumer Accounts, verify that the RDFI provides or makes available to the Receiver the contents of the Check Serial Number Field of an ARC, BOC, or POP Entry. (Article Three, subsection 3.1.5.2)

- f. For all entries except RCK:

Verify that the RDFI Transmits Return Entries to its ACH Operator by the ACH Operator's deposit deadline for the Return Entries to 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, except as otherwise provided in these rules. (Article Three, section 3.8)

Verify that late returns of unauthorized CCD or CTX Entries are Transmitted with the agreement of the ODFI and that such entries utilize the appropriate Return Reason Code. (Article Three, subsection 3.8.3.5; Appendix Four)

Verify that dishonored Return Entries received by the RDFI are handled appropriately, and that contested dishonored Return Entries and corrected Return Entries are initiated in a timely manner. (Article Three subsection 3.8.5; Appendix Four)

- g. Verify that Return Entries relating to RCK Entries are Transmitted to the RDFI's ACH Operator by midnight of the RDFI's second Banking Day following the Banking Day of the receipt of the RCK Entry. (Article Three, subsection 3.8.3.3)

- h. Verify that the RDFI returns any credit Entry that is refused by a Receiver by Transmitting a Return Entry to its ACH Operator by the ACH Operator's deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the second Banking Day following the RDFI's receipt of notification from the Receiver that it has refused the Entry. Also verify that the RDFI returns all credit Entries that are not credited or otherwise made available to its Receivers' accounts by Transmitting a Return Entry to its ACH Operator by the ACH Operator's deposit deadline for the Return Entry to 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. (Article Three, subsections 3.8.3.2 and 3.8.4)

- i. Verify that the RDFI honors stop payment orders provided by Receivers, either verbally or in writing, to the RDFI at least three Banking Days before the scheduled date of any debit Entry to a Consumer Account other than a Single Entry. Verify that the RDFI honors stop payment orders provided by Receivers to the RDFI at such time and in such manner as to allow the RDFI a reasonable opportunity to act upon the order prior to acting on any debit Entry to a non-Consumer Account, or an ARC, BOC, POP, or RCK Entry, or a Single Entry IAT, PPD, TEL, or WEB Entry, to a Consumer Account. (Article Three, subsections 3.7.1.1, 3.7.1.2 and 3.7.2)

Verify that the RDFI uses Return Reason Codes R38 (Stop Payment on Source Document) and R52 (Stop Payment on Item Related to RCK Entry) properly. Verify that, for each ARC, BOC, or RCK Entry for which a stop payment order was in force with respect to (a) the Check that was used as an Eligible Source Document for the ARC or BOC Entry, or (b) the item to which the RCK Entry relates, the Extended Return Entry is Transmitted to the RDFI's ACH Operator by its deposit deadline for the Extended Return Entry 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. (NOTE: No Written Statement of Unauthorized Debit is required for entries returned for these reasons.) (Article Three, subsections 3.11.2.2 and 3.13.1; Appendix Four)

- j. Verify that Written Statements of Unauthorized Debit are obtained from consumers for all returns bearing Return Reason Codes R05, R07, R10, R37, R51, and R53, and that each Extended Return Entry is Transmitted to the RDFI's ACH Operator by its deposit deadline for the Extended Return Entry 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. Verify that copies of Written Statements of Unauthorized Debits are provided to the ODFI within the required time frame, when such copies are requested in writing by the ODFI. (Article Three subsection 3.11.1, 3.12.4, 3.12.6; and 3.13.1; Appendix Four)
- k. Verify that the RDFI has provided the Receiver with proper notice to ensure compliance with UCC Article 4A with respect to ACH credit transactions. (Article Three, subsection 3.1.6)
- l. Verify that, when requested to do so by the non-Consumer Receiver, the RDFI provides all information contained within the payment-related information field of an Addenda Record(s) Transmitted with a CCD, CTX, CIE, or IAT Entry. The RDFI must provide this information by the opening of business on the RDFI's second Banking Day following the Settlement Date of the Entry. (Article Three, subsection 3.1.5.3)

## PART 8.4 Audit Requirements for ODFIs

In addition to the audit procedures outlined in Parts 8.1 (General Audit Requirements) and 8.2 (Audit Requirements for All Participating DFIs) of this Appendix Eight, ODFIs, Third-Party Service Providers, and Third-Party Senders must conduct

an audit of the following relating to the origination of ACH entries:

- a. Verify that the ODFI has entered into Origination Agreements with all Originators or Third-Party Senders that bind the Originator or Third-Party Sender to these Rules; that authorize the ODFI to originate entries on behalf of the Originator or Third-Party Sender; that, within such agreements, the Originator or Third-Party Sender acknowledges that Entries may not be initiated that violate the laws of the United States; that includes any restrictions on types of Entries that may be originated; that includes that the Third-Party has entered into an agreement with each Originator/ and that such agreements include the right of the ODFI to terminate or suspend the agreement for breach of the Rules, and the right of the ODFI to audit the Originator's, the Third-Party Sender's and the Third-Party Sender's Originators' compliance with the Origination Agreement and the Rules. With respect to IAT Entries, verify that agreements contain all necessary provisions. (Article Two, subsections 2.2.1.1, 2.2.1.2 and 2.5.8.3)
- b. Verify that, if applicable, the ODFI has entered into agreements with all Sending Points that Transmit Entries on the ODFI's behalf to an ACH Operator. (Article Two, subsection 2.2.1.3)
- c. Verify that the ODFI has assessed the risks of the Originator's or Third-Party Sender's ACH activity, and has established, implemented and periodically reviewed an exposure limit for each Originator or Third-Party Sender. Verify that the ODFI has established and implemented procedures to monitor the Originator's or Third-Party Sender's origination and return activity across multiple Settlement Dates; enforce restrictions on the types of Entries that may be originated; and enforce the exposure limit. (Article Two, subsection 2.2.2)
- d. Verify that the ODFI accepts Return Entries and Extended Return Entries that comply with these Rules and that are Transmitted by the RDFI within the time limits established

- by these Rules. Verify that dishonored Return Entries are Transmitted within five banking days after the Settlement Date of the Return Entry and that contested dishonored Return Entries are accepted, as required by these rules. Verify that the ODFI is using return reason codes in an appropriate manner. (Article Two, subsections 2.12.1, 2.12.5.1, and 2.12.5.2; Appendix Four)
- e. Verify that information relating to NOCs and Corrected NOCs is provided to each Originator or Third-Party Sender within two Banking Days of the Settlement Date of the NOC or Corrected NOC in accordance with Appendix Five (Notification of Change). Verify that refused NOCs are Transmitted within fifteen (15) days of receipt of an NOC or corrected NOC. (Article Two, subsections 2.11.1 and 2.11.2)
  - f. With the exception of XCK entries, verify that the ODFI provides to the RDFI, upon receipt of the RDFI's written request, the original, a copy, or other accurate Record of the Receiver's authorization with respect to a Consumer Account within ten banking days without charge. (Article Two, subsections 2.3.2.5 and 2.5.18.6)
  - g. Verify that, when agreed to by the ODFI, late Return Entries are accepted in accordance with these rules. (Article Two, subsection 2.12.6)
  - h. Verify that the ODFI has provided the Originator with proper notice to ensure compliance with UCC Article 4A with respect to ACH transactions. (Article Two, subsection 2.3.3.2)
  - i. Verify that the ODFI has utilized a commercially reasonable method to establish the identity of each Originator or Third-Party Sender that uses an Unsecured Electronic Network to enter into an Origination Agreement with the ODFI. When an ODFI has a relationship with a Third-Party Sender rather than with an Originator directly, also verify that the Third-Party Sender has utilized a commercially reasonable method to establish the identity of each Originator that uses an Unsecured Electronic Network to enter into an Origination Agreement with the Third-Party Sender. (Article Two, subsections 2.4.1.8 and 2.15.2)
  - j. Verify that Reversing Entries and Reversing Files are initiated in accordance with the requirements of these Rules. (Article Two, sections 2.8 and 2.9)
  - k. For BOC Entries, verify that the ODFI has (1) established and implemented commercially reasonable procedures to verify the identity of each Originator or Third-Party Sender of such entries; and (2) established and implemented procedures to document specific information with respect to each Originator, as required by these rules, and that, upon request, such information is provided to the RDFI within the required time frame. (Article Two, subsection 2.5.2.5)
  - l. Verify that the ODFI has reported Return Rate information on each Originator or Third-Party Sender, as requested by the National Association. (Article Two, subsection 2.17.2)
  - m. Verify that the ODFI has (1) registered its Direct Access status with the National Association; (2) obtained the approval of its board of directors, committee of the board of directors, or its designee for each Direct Access Debit Participant; (3) provided required statistical reporting for each Direct Access Debit Participant; and (4) notified the National Association of any change to the information previously provided with respect to any Direct Access Debit Participant. (Article Two, subsection 2.17.1)
  - n. Verify that the ODFI has kept Originators and Third-Party Senders informed of their responsibilities under these rules. (Article Two, section 2.1)



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## APPENDIX NINE

# Arbitration Procedures

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### PART 9.1 Scope

The rules contained in this Appendix Nine govern the settlement of disputes arising under these *Rules* between Participating DFIs by arbitration. In the event of any inconsistency between the provisions of this Appendix and of Articles One through Eight of these *Rules*, the provisions of this Appendix Nine will control. An arbitration claim under this Appendix Nine will be processed only if the amount of the damages claimed is \$250 or more.

### PART 9.2 Filing a Complaint

#### ***SUBPART 9.2.1 Required Information***

To initiate an arbitration proceeding, a Participating DFI (the “complainant”) submits a complaint to the National Association. A complaint must contain the following:

##### ***SUBPART 9.2.1.1 Identification of Parties***

The names, addresses and telephone numbers of the complainant and the other party involved in the dispute (the “respondent”).

##### ***SUBPART 9.2.1.2 Summary of Facts***

A summary of the facts of the dispute as well as the section(s) of the *Rules* that is/are alleged to have been violated. The summary must also include information permitting identification of the particular transaction(s) and the sequence of events involved, and the precise nature of the violation(s).

##### ***SUBPART 9.2.1.3 Statement of Damages***

A statement of the dollar amount of damages claimed by the complainant and an explanation of how damages in the amount claimed resulted from the violation(s) asserted.

#### ***SUBPART 9.2.2 Additional Documents and Fees***

The complaint must be accompanied by the following:

##### ***SUBPART 9.2.2.1 Documents Relating to Claim***

Copies of the documents available to the complainant necessary to resolve the dispute and of any written communications by the complainant and the respondent relating to the violation asserted.

##### ***SUBPART 9.2.2.2 Application Fee***

A \$250 non-refundable application fee to be used for administrative expenses.

#### ***SUBPART 9.2.3 Authorization for Submitting a Complaint***

The complaint must be signed by an officer of the complainant and be submitted to the National Association within two years of the violations asserted.

#### ***SUBPART 9.2.4 Complaints Involving Multiple Participating DFIs***

If the complainant is involved in related disputes with more than one Participating DFI, a separate complaint must be filed with respect to each such Participating DFI.

### PART 9.3 Classification of Disputes

#### ***SUBPART 9.3.1 Complaints with Damages of \$250 or More But Less Than \$10,000 (Arbitration Procedure A)***

All complaints in which the amount of damages claimed is \$250 or more but less than \$10,000 will be processed under Arbitration Procedure A in these rules. Under Arbitration Procedure A: (1) Arbitration is mandatory for both parties once a claim for arbitration is filed in accordance with these rules; (2) A hearing will not be held; (3) One arbitrator will decide the case; and (4) The arbitrator's stipend will be \$100.

#### ***SUBPART 9.3.2 Complaints with Damages of \$10,000 or More But Less Than \$50,000 (Arbitration Procedure B)***

All complaints in which the amount of damages claimed is \$10,000 or more but less than \$50,000 will be processed under Arbitration Procedure B in these rules. Under Arbitration Procedure B: (1)

Arbitration is mandatory for both parties once a claim for arbitration is filed in accordance with these rules; (2) A hearing will not be held; (3) Three arbitrators will decide the case; and (4) The stipend for each arbitrator will be 1% of the arbitrator's decision.

***SUBPART 9.3.3 Complaints with Damages of \$50,000 or More (Arbitration Procedure C)***

All complaints in which the amount of damages claimed is \$50,000 or more will be processed under Arbitration Procedure C in these rules. Under Arbitration Procedure C: (1) Arbitration is not mandatory. Before the complaint is filed, both parties must agree to submit the dispute to arbitration. If both parties agree, one of them must submit to the National Association a complaint that complies with these rules; (2) A hearing will be held unless the parties otherwise agree and notify the National Association at the time the complaint is filed. If the parties otherwise agree, the procedures in Subpart 9.5.2 (Arbitration Procedure B) rather than Subpart 9.5.3 (Arbitration Procedure C) of this Appendix Nine will be followed; (3) At its discretion, a party may be represented at the hearing by legal counsel; (4) Three arbitrators will decide the case; and (5) The stipend for each arbitrator will be 1.5% of the arbitrator's decision.

**PART 9.4 Selection of Arbitrators**

The National Association will maintain a list of arbitrators that have been nominated by Associations in accordance with the procedures established by the National Association.

***SUBPART 9.4.1 Arbitration Procedure A***

For claims subject to Arbitration Procedure A, an arbitrator will be selected by the following method: (1) The National Association will mail each party the same list of five arbitrators from among those nominated as provided herein who are not affiliated with either party to the dispute; (2) Each party will be given ten days from the date the list is mailed to review the list, delete two names, and mail or deliver the remaining names to the National Association; (3) The National Association will then compare the two lists and select one arbitrator not deleted from either list to decide the case; and (4) If either list is not returned within the time limit specified above, the National Association will then select the arbitrator to decide the case from among

the names not deleted on the list returned, or, if neither list is returned within the time limit, from among the names on the lists as mailed to each party.

***SUBPART 9.4.2 Arbitration Procedures B and C***

For claims subject to Arbitration Procedures B and C, arbitrators will be selected by the following method: (1) The National Association will mail each party the same list of ten arbitrators from among those nominated as provided herein who are not affiliated with either party to the dispute; (2) Each party will have ten days from the date the list is mailed to review the list, delete three names, and mail or deliver the remaining names to the National Association; (3) The National Association will then compare the two lists and select three arbitrators not deleted from either list to decide the case; and (4) If either list is not returned within the time limit specified above, the National Association will then select the arbitrators to decide the case from among the names not deleted on the list returned, or, if neither list is returned within that time limit, from among the names on the list as mailed to each party.

**PART 9.5 Presentation of the Case and the Decision**

***SUBPART 9.5.1 Arbitration Procedure A***

Cases subject to Arbitration Procedure A will be presented and the decisions reached according to the following requirements: (1) After a party has received notification of the selection of the arbitrator, it will have 14 days to submit to the National Association in writing for consideration in such proceeding any matter it deems appropriate, and the National Association will submit copies of such materials to the arbitrator and the other party; (2) In the event the respondent, in the judgment of the arbitrator, fails to cooperate in the proceeding within 14 days of a request for information by the arbitrator, the facts as stated in the complaint will be assumed to be true for purposes of the arbitration; (3) Once the arbitrator has received all information he deems relevant or necessary, the arbitrator will have 30 days to render his decision. The amount of the award of damages may not exceed the amount of damages claimed in the complaint; (4) The arbitrator may adopt such rules and procedures with respect to

evidence and other procedural and substantive matters not inconsistent with these rules as he may deem appropriate; (5) The decision of the arbitrator will be based upon the applicable rules; (6) Neither party will initiate contact with the arbitrator concerning the subject matter of the dispute unless the other party is present; (7) The arbitrator will be entitled to recover a part or all of the arbitrator's stipend from either party as determined by the arbitrator; and (8) The arbitrator will pay his expenses and each party will pay its own expenses, including attorneys' fees, in connection with the arbitration.

#### ***SUBPART 9.5.2 Arbitration Procedure B***

Cases subject to Arbitration Procedure B will be presented and the decisions reached according to the following requirements: (1) After a party has received notification of the selection of the arbitrators, it will have 14 days to submit to the National Association in writing for consideration in such proceeding any matter it deems appropriate, and the National Association will submit copies of such materials to the arbitrators and the other party; (2) In the event the respondent, in the judgment of the arbitrators, fails to cooperate in the proceeding within 14 days of a request for information by the arbitrators, the facts as stated in the complaint will be assumed to be true for purposes of the arbitration; (3) Once the arbitrators have received all information they deem relevant or necessary, the arbitrators will have 30 days to render their decision. The amount of the award of damages may not exceed the amount of damages claimed in the complaint; (4) The arbitrators may adopt such rules and procedures with respect to evidence and other procedural and substantive matters not inconsistent with these rules as they may deem appropriate; (5) The decision of the arbitrators will be based upon the applicable rules; (6) Neither party will initiate contact with the arbitrators concerning the subject matter of the dispute unless the other party is present; (7) The arbitrators will be entitled to recover a part or all of the arbitrators' stipend from either party as determined by the arbitrators; and (8) The arbitrators will pay their expenses and each party will pay its own expenses, including attorneys' fees, in connection with the arbitration.

#### ***SUBPART 9.5.3 Arbitration Procedure C***

Cases subject to Arbitration Procedure C will be presented and the decisions reached according to the following requirements: (1) If a hearing is to be held, the arbitrators will set a hearing date which will not be less than 90 days after each party has received notification of the selection of the arbitrators; (2) The National Association will provide both parties with at least 30 days prior notice of the hearing; (3) Following the hearing, the arbitrators will have 30 days to render their decision. The amount of the award of damages may not exceed the amount of damages claimed in the complaint; (4) The arbitrators may adopt such rules and procedures with respect to evidence and other procedural and substantive matters not inconsistent with these rules as they may deem appropriate; (5) The decision of the arbitrators will be based upon the applicable rules; (6) Neither party will initiate contact with any arbitrator concerning the subject matter of the dispute unless the other party is present; (7) Each party will pay its own expenses, including attorneys' fees, in connection with the arbitration; and (8) The arbitrators will be entitled to recover a part or all of their travel and other expenses in connection with the arbitration and the arbitrators' stipend from either party, as determined by the arbitrators.

### **PART 9.6 Payment and Appeal**

#### ***SUBPART 9.6.1 Arbitration Procedures A and B***

Payments of awards and appeals of decisions will be subject to the following requirements: (1) The party against which such amount has been assessed will have 14 days after receiving notice of the decision in which to pay the damage award or other amount assessed against it as provided in these rules; (2) The decision of the arbitrator(s) will be final and binding on the parties to the dispute, and judgment thereon may be entered in any court having jurisdiction. Except to the extent such a prohibition is unlawful under the laws of the state in which the party against which damages have been awarded by the arbitrator(s) is domiciled, such decision will not be appealable to the courts.

#### ***SUBPART 9.6.2 Arbitration Procedure C***

Payments of awards and appeals of decisions will be subject to the following requirements: (1) In



the absence of an appeal to the courts, the party against which such amount has been assessed will have 14 days after receiving notice of the decision in which to pay the damage award or other amount assessed against it as provided in these rules; (2) The arbitrators' decision will be binding on the parties to the dispute, and judgment thereon may be entered by any court having jurisdiction. Except to the extent the parties have entered into an enforceable agreement to the contrary, either party may appeal the arbitrators' decision to the courts. In the absence of such an appeal, the arbitrators' decision will be final.

## APPENDIX TEN

# Rules Enforcement

### PART 10.1 Scope

Appendix Ten governs the rules enforcement procedures to be applied in the event of (1) an ACH rules violation, including a breach of warranty under these rules, filed against a Participating DFI by a Participating DFI or an ACH Operator that is a party to the transaction, (2) the identification of a return rate for unauthorized Entries by an Originator or Third-Party Sender that exceeds a defined threshold, or (3) the failure of a Participating DFI to comply with a direct obligation to the National Association, as defined by these *Rules*.

This Appendix Ten (1) defines the criteria under which a rules enforcement proceeding may be initiated for any violation of these *Rules*; and (2) establishes the parameters under which the National Association may undertake specific actions with respect to the monitoring and reporting of activity causing potential harm to Participating DFIs or the ACH Network.

The purpose of these enforcement mechanisms is to maintain the quality of ACH services and the satisfaction of Participating DFIs and their customers by promoting compliance with these rules and reducing the risks to Participating DFIs

and their customers by limiting the number of unauthorized Entries.

### PART 10.2 ODFI Reporting Requirements

#### ***SUBPART 10.2.1 National Association Request for Information***

If, in its sole discretion, the National Association believes that the rate that debit Entries are returned as unauthorized exceeds one percent for one or more Originators or Third-Party Senders using the ODFI to originate Entries, the National Association may send, via traceable delivery method, a written request to the ODFI's Chief Operating Officer for information described in Article Two, Subsection 2.17.2 (ODFI Return Rate Reporting). A copy of this request will also be sent to the ODFI's ACH Manager.

#### ***SUBPART 10.2.2 National Association Action on Receipt of Information Reported by ODFI***

The National Association may initiate a rules enforcement proceeding according to Part 10.4 (National System of Fines) of this Appendix Ten for a Class 2 Rules Violation, as defined within Subpart 10.4.7.4 (Class 2 Rules Violation), if the ODFI (1) fails to provide the National Association with complete and accurate information, as required by Article Two, Section 2.17.2 (ODFI Return Rate Reporting), within ten Banking Days of receipt of NACHA's written request for information; (2) substantiates the claim that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent, and the ODFI fails to reduce that return rate to a rate below the return threshold for unauthorized Entries within 60 days after receipt of the National Association's written request, according to Article Two, Section 2.17.2 (ODFI Return Rate Reporting); or (3) substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent, and the ODFI successfully reduced the return rate to below the return threshold within the 60 day time period, but the ODFI failed to maintain the return rate below one percent for 180 additional days.

■ *The National Association may initiate a rules enforcement proceeding according to Part 10.4*

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► *(National System of Fines) of this Appendix Ten for a Class 2 Rules Violation, as defined within Subpart 10.4.7.4 (Class 2 Rules Violation), if the ODFI (1) fails to provide the National Association with complete and accurate information, as required by Article Two, Section 2.17.2 (ODFI Return Rate Reporting), within ten Banking Days of receipt of NACHA's written request for information; (2) substantiates the claim that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent, and the ODFI fails to reduce that return rate to a rate below the return threshold for unauthorized Entries within 30 days after receipt of the National Association's written request, according to Article Two, Section 2.17.2 (ODFI Return Rate Reporting); or (3) substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below one percent for 180 additional days.*

## **PART 10.3 ODFI Registration Requirements**

If, in its sole discretion, the National Association believes that an ODFI has failed to register its Direct Access Debit Participant status, or to provide data reporting regarding a Direct Access Debit Participant, the National Association may initiate a rules enforcement proceeding. Such proceeding will be according to Part 10.4 (National System of Fines) of this Appendix Ten for a Class 2 Rules Violation, as defined within Subpart 10.4.7.4 (Class 2 Rules Violation).

## **PART 10.4 National System of Fines**

### ***SUBPART 10.4.1 Initiation of a Rules Enforcement Proceeding***

A rules enforcement proceeding may be initiated for any violation of these rules. A rules enforcement proceeding may be conducted by the National Association in response to an ACH rules violation, including a breach of warranty under these rules, filed against a Participating DFI. The complainant must be a Participating DFI or an ACH Operator that is party to the transaction. A rules enforcement proceeding initiated by a Participating DFI or an ACH Operator must comply with the requirements

of Subpart 10.4.2 (Submission Requirements for Rules Enforcement Proceedings Initiated by a Participating DFI or an ACH Operator.) The Report of Possible ACH Rules Violation Form and filing instructions are located in the NACHA Operating Guidelines.

A rules enforcement proceeding may also be initiated and conducted by the National Association in response to (1) a violation of unauthorized Entries according to Part 10.2 (ODFI Reporting Requirements) of this Appendix Ten, or (2) the failure of a Participating DFI to comply with a direct obligation to the National Association, as defined by these rules. A rules enforcement proceeding initiated by the National Association must comply with the requirements of Subpart 10.4.3 (Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association).

### ***SUBPART 10.4.2 Submission Requirements for Rules Enforcement Proceedings Initiated by a Participating DFI or an ACH Operator***

Each rules enforcement proceeding initiated by a Participating DFI or an ACH Operator that is a party to a transaction must include a completed Report of Possible ACH Rules Violation that includes the following information and conforms to the following requirements:

#### ***SUBPART 10.4.2.1 Identification of Parties***

The names, addresses, and telephone numbers of the complainant and the other Participating DFI involved in the dispute (the "respondent") and routing number of the respondent.

#### ***SUBPART 10.4.2.2 Summary of Facts***

A summary of the facts of the alleged rule violation, as well as the section(s) of the rules violated. The summary must also include information permitting identification of the particular transaction(s), the sequence of events involved, the precise nature of the violation(s), and the consequences to the complainant.

#### ***SUBPART 10.4.2.3 Documents Relating to Possible Rules Violation***

Copies of the documents available to the complainant necessary to support the claim that

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an ACH rule has been violated, and of any written communications by the complainant and the respondent relating to the violation(s) asserted.

**SUBPART 10.4.2.4 Authorization for Submitting a Rules Violation Report**

The Report of Possible ACH Rules Violation must be signed by an authorized representative of the complainant.

**SUBPART 10.4.2.5 Deadline for Submitting a Rules Violation Report**

A Report of Possible ACH Rules Violation must be submitted to the National Association within 90 days of the occurrence of the rule violation(s) asserted. ►

**SUBPART 10.4.2.6 Complaints Involving Multiple Participating DFIs**

If the complainant is asserting rules violations against more than one Participating DFI, a separate Report of Possible ACH Rules Violation must be filed with respect to each such Participating DFI.

**SUBPART 10.4.3 Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association**

Each rules enforcement proceeding initiated by the National Association must contain the following information and conform to the following requirements:

- a statement outlining the reason(s) for the initiation of a rules enforcement proceeding: (1) the ODFI failed, within the required timeframe, to provide the National Association with complete and accurate information as required by Article Two, Section 2.17.2 (ODFI Return Rate Reporting); (2) the information provided by the ODFI substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 60 days after receipt of the National Association's written request, according to Article Two, 2.17.2 (ODFI Return Rate Reporting); (3)

the information provided by the ODFI substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 60 day time period, but the ODFI failed to maintain the return rate below the return threshold for 180 additional days; (4) or the Participating DFI failed to comply with a direct obligation to the National Association, as defined by these rules;

*a statement outlining the reason(s) for the initiation of a rules enforcement proceeding: (1) the ODFI failed, within the required timeframe, to provide the National Association with complete and accurate information as required by Article Two, Section 2.17.2 (ODFI Return Rate Reporting); (2) the information provided by the ODFI substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 30 days after receipt of the National Association's written request, according to Article Two, 2.17.2 (ODFI Return Rate Reporting); (3) the information provided by the ODFI substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below the return threshold for 180 additional days; or (4) the Participating DFI failed to comply with a direct obligation to the National Association, as defined by these rules;*

- for a rules enforcement proceeding initiated in response to a violation of unauthorized Entries according to Part 10.2 (ODFI Reporting Requirements) of this Appendix Ten, a copy of the National Association's written request for information according to Subpart 10.2.1 (National Association Request for Information) of this Appendix Ten.

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A rules enforcement proceeding initiated by the National Association must be submitted within 90 days of the occurrence of the rule violation(s) asserted.

#### ***SUBPART 10.4.4 Assessment of Rules Enforcement Submission***

Each submission of a rules enforcement proceeding will be evaluated by the National Association to ensure that the documentation necessary to identify the incident has been included and to determine whether a violation of these rules appears to have occurred. If the National Association makes a preliminary determination that a violation of these rules has occurred, the National Association will identify whether the violation is (1) the first such violation, (2) a Class 1 Rules Violation involving a recurrence of a previous violation, or (3) a Class 2 Rules Violation, and it will issue either a Notice of Possible ACH Rules Violation or a Notice of Possible Fine in accordance with this Subpart 10.4.4. If the National Association determines that it is unclear whether a rules violation has occurred, or if the National Association believes the violation involves a Class 2 Rules Violation, it may forward the issue to the ACH Rules Enforcement Panel for additional review.

In circumstances involving (1) a submission to the rules enforcement process from a Participating DFI or an ACH Operator that is a party to a transaction, identifying either a Class 1 Rules Violation or a Class 2 Rules Violation; or (2) a rules enforcement proceeding initiated by the National Association because of a Class 2 Rules Violation, the issue will be forwarded directly to the ACH Rules Enforcement Panel for evaluation and possible assessment of a fine or penalty in accordance with Subpart 10.4.7 (Fines and Penalties).

##### ***SUBPART 10.4.4.1 Notice of Possible ACH Rules Violation***

If the National Association determines that the violation is the first such infraction of these rules, a Notice of Possible ACH Rules Violation will be sent to the ACH Manager at the respondent Participating DFI, within ten Banking Days via traceable delivery method, indicating that an infraction of the rules appears to have occurred

and explaining that fines may be imposed against the Participating DFI in the event that the rule violation is not corrected.

The Participating DFI will be asked to correct the problem that caused the rule violation and to respond within ten Banking Days after the date on which it received the Notice of Possible ACH Rules Violation. The Notice of Possible ACH Rules Violation Response Form must be sent, via traceable delivery method, to the National Association and must include either (1) an acknowledgment of the Participating DFI's recognition of and intent to correct the problem causing the rule violation, along with a statement specifying the date by which the Participating DFI will resolve the problem (resolution date), or (2) a statement, along with supporting documentation, that the Participating DFI does not believe that a rules infraction has occurred.

If the National Association receives the Participating DFI's completed response form and any necessary documentation within the ten Banking Day time frame, no additional action will be taken by the National Association unless (1) the National Association believes the time frame and resolution date asserted by a Participating DFI as necessary to resolve the problem causing the rules violation are excessive and require review by the ACH Rules Enforcement Panel, or (2) the National Association receives an additional submission of a rule violation report.

##### ***SUBPART 10.4.4.2 Notice of Possible Fine***

If the National Association determines that the violation is a Class 1, Class 2, or Class 3 Rules Violation, as defined by Subpart 10.4.7 (Fines and Penalties), a Notice of Possible Fine will be sent to the Participating DFI and the National Association will forward the issue to the ACH Rules Enforcement Panel to consider the imposition of a fine against the Participating DFI in accordance with Subpart 10.4.7 of this Appendix Ten.

In the Notice of Possible Fine, the Participating DFI will be asked to correct the rule violation that is the basis for the Notice of Possible Fine and to respond to the National Association within ten



Banking Days after the date on which it received a Notice of Possible Fine. The Notice of Possible Fine Response Form must be sent, via traceable delivery method, to the National Association and must include either (1) an acknowledgment of the Participating DFI's recognition of and intent to correct the problem causing the rule violation that is the basis for the Notice of Possible Fine, along with a statement specifying the Resolution Date, or (2) a statement, along with supporting documentation, that the Participating DFI does not believe that a rules violation occurred.

Where the ODFI fails to provide a complete and accurate response in accordance with the requirements of Section 2.17.2 (ODFI Return Rate Reporting), the ODFI's acknowledgment to the Notice of Possible Fine must include the reporting information required by Section 2.17.2. In situations involving the ODFI's affirmation of a return rate for unauthorized Entries in excess of the return threshold, the ODFI's acknowledgment to the Notice of Possible Fine must include updated information on, and the timetable for, the implementation of the ODFI's plan to reduce its return rate.

Where the ODFI fails to register or provide data reporting in accordance with the requirements of Article Two, Section 2.17.1 (Direct Access Registration), the ODFI's acknowledgement to the Notice of Possible Fine must include the registration information required by Section 2.17.1.

If the National Association receives the Participating DFI's completed response form and related information within the ten Banking Day time frame, and the National Association determines that the response refutes the claim in the Notice of Possible Fine, the National Association will take no additional action at that time. In all other circumstances described within this Subpart 10.4.4.2, the National Association will forward the issue to the ACH Rules Enforcement Panel for its consideration and possible imposition of a fine in accordance with Subpart 10.4.7 (Fines and Penalties) of this Appendix Ten.

### **SUBPART 10.4.5 Notifications**

#### ***SUBPART 10.4.5.1 Notification on Initiation of Rules Enforcement Proceeding***

An informational copy of each rules enforcement proceeding initiated under this Appendix Ten will be forwarded to the Regional Payments Association of both the complainant and the respondent. In the event that either party is an access participant (i.e., not a member of a Regional Payments Association), an informational copy will be forwarded to the local Federal Reserve Bank. In situations involving the initiation of a rules enforcement proceeding by the National Association according to Subpart 10.4.1 (Initiation of a Rules Enforcement Proceeding), an informational copy of each such rules enforcement proceeding initiated will be forwarded to the ACH Operators.

#### ***SUBPART 10.4.5.2 Notification on Resolution of Issue***

The National Association will notify the complainant upon the resolution of the rules enforcement proceeding that either (1) the violation has been resolved or will be resolved within a certain time period, or (2) the respondent has refuted the claim of a rules violation.

### **SUBPART 10.4.6 ACH Rules Enforcement Panel**

#### ***SUBPART 10.4.6.1 Selection of Enforcement Panel***

The National Association will maintain a list of members of the ACH Rules Enforcement Panel that have been nominated in accordance with the procedures established by the National Association.

#### ***SUBPART 10.4.6.2 Responsibilities of Enforcement Panel***

The ACH Rules Enforcement Panel, in accordance with these rules, is the final authority regarding each of these issues:

- the imposition of any fines or penalties recommended by the National Association;
- instances in which the National Association believes the time frames and Resolution Dates asserted by the respondent Participating DFI as necessary to resolve the problem causing a rules violation are excessive;

- rules violations that the National Association believes constitute Class 1, Class 2, or Class 3 Rules Violations; and
- situations in which the National Association determines that it is unclear whether a rules violation has occurred.

#### ***SUBPART 10.4.7 Fines and Penalties***

##### *SUBPART 10.4.7.1 Imposition of Fines/Penalties*

In the event that a Participating DFI is cited with a Class 1, Class 2, or Class 3 Rules Violation, the National Association will impose a fine, subject to approval by the ACH Rules Enforcement Panel, on the Participating DFI in accordance with this Subpart 10.4.7.

The National Association will collect a fine by transmitting an ACH debit to the account of the affected respondent Participating DFI. Each Participating DFI agrees to the payment of any fines in accordance with this process. The National Association will provide notice to the respondent Participating DFI of the date and amount of the debit at least seven Banking Days in advance of the Settlement Date of the debit.

##### *SUBPART 10.4.7.2 Determination of Fines*

The fine(s) levied against a respondent Participating DFI for an infraction(s) of these rules will be determined based on an evaluation by the National Association of whether the rules violation is a Class 1, Class 2, or Class 3 Rules Violation.

##### *SUBPART 10.4.7.3 Class 1 Rules Violation*

A Class 1 Rules Violation involves a recurrence of a previous rules violation. A rules violation is considered to be a recurrence of a previously reported infraction of these rules if:

- the same infraction is committed by the same Originator that transmits through the ODFI within the one-year period following the Resolution Date of the initial rules violation;
- the same infraction is committed by the same Third-Party Service Provider transmitting through or on behalf of an ODFI or receiving on behalf of an RDFI within the one-year

period following the Resolution Date of the initial rules violation; or

- the same infraction is committed by the same Participating DFI within the one-year period following the Resolution Date of the initial rules violation.

Fines for recurrences may be assessed by the ACH Rules Enforcement Panel as follows:

- The first recurrence of a rules violation that will cause a fine to be levied by the National Association will result in an assessment of up to \$1,000 against the Participating DFI.
- The second recurrence of a rules violation that causes a fine to be levied by the National Association will result in an assessment of up to \$2,500 against the Participating DFI.
- The third recurrence of a rules violation that causes a fine to be levied by the National Association will result in an assessment of up to \$5,000 against the Participating DFI.

##### *SUBPART 10.4.7.4 Class 2 Rules Violation*

A Class 2 Rules Violation is one in which:

- (1) the Participating DFI has not responded to either the Notice of Possible ACH Rules Violation or the Notice of Possible Fine;
- (2) the Participating DFI responds to either notice that it does not intend to correct the rules violation;
- (3) the Participating DFI (i) fails to respond completely and accurately, within the proper time frame, to the National Association's request for information in accordance with the requirements of Article Two, Section 2.17.2 (ODFI Return Rate Reporting); (ii) substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized

Entries within 60 days of receipt of the National Association's written request; or (iii) substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 60 day time period, but the ODFI failed to maintain the return rate below the return threshold for 180 additional days. The Panel may consider the Originator's or Third-Party Sender's volume of debit Entries as an extenuating circumstance in determining whether a violation under this provision constitutes a Class 2 Rules Violation.

- (3) *the Participating DFI (i) fails to respond completely and accurately, within the proper time frame, to the National Association's request for information in accordance with the requirements of Article Two, Section 2.17.2 (ODFI Return Rate Reporting); (ii) substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 30 days of receipt of the National Association's written request; or (iii) substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below the return threshold for 180 additional days. The Panel may consider the Originator's or Third-Party Sender's volume of debit Entries as an extenuating circumstance in determining whether a violation under this provision constitutes a Class 2 Rules Violation.*

- (4) the Participating DFI fails to register its Direct Access Debit Participant status or provide data reporting on a Direct Access Debit Participant, as required by Article Two, Section 2.17.1 (Direct Access Registration);
- (5) the Participating DFI fails to provide the National Association with proof of completion of a rules compliance audit, as required by Appendix Eight (Rule Compliance Audit Requirements);
- (6) the ACH Rules Enforcement Panel determines the time frame and resolution date asserted by a Participating DFI as necessary to resolve the problem causing the rules violation are excessive;
- (7) the National Association believes that the violation causes excessive harm to one or more Participating DFIs or the ACH Network; or
- (8) it is the fourth or subsequent recurrence of the same rules violation.

In situations involving a Class 2 Rules Violation, the ACH Rules Enforcement Panel may levy a fine against the respondent Participating DFI in an amount up to \$100,000 per month until the problem is resolved. Where the violation relates to a specific Originator or Third-Party Service Provider at the DFI, a separate monthly fine may be assessed to the DFI with respect to each such Originator or Third-Party Service Provider.

#### SUBPART 10.4.7.5 Class 3 Rules Violation

In any case where a Class 2 Rules Violation, as defined by Subpart 10.4.7.4 (Class 2 Rules Violation), has continued for three consecutive months, the ACH Rules Enforcement Panel may determine that the violation of these rules by a respondent Participating DFI is a Class 3 Rules Violation and may levy a fine against the respondent Participating DFI of up to \$500,000 per month until the problem causing the violation is resolved.



*SUBPART 10.4.7.6 Suspension*

In circumstances where the ACH Rules Enforcement Panel has determined that there is a Class 3 Rules Violation that relates to a specific Originator or Third-Party Sender according to Subpart 10.4.7.5 (Class 3 Rules Violation) of this Appendix Ten, the ACH Rules Enforcement Panel may direct the ODFI to suspend the Originator or Third-Party Sender from originating. Any such suspension shall only be lifted by the ACH Rules Enforcement Panel.

In cases where the ACH Rules Enforcement Panel has directed an ODFI to suspend an Originator or Third-Party Sender from originating, the National Association will provide notice of such suspension, and any subsequent reinstatement, to Participating DFIs, ACH Operators, and Regional Payments Associations.

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     transmission of ACH information, OR3  
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## V

Variable debits, OR6

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Waiver of right to recredit, OR43  
 Warranties  
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# *NACHA Operating Guidelines – Corporate Edition*

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The *NACHA Operating Rules (Rules)* provides users with the legal framework for the ACH Network, while the *NACHA Operating Guidelines – Corporate Edition* provides guidance on implementing the rules. In the case of any inconsistency or conflict between the *Rules* and the *NACHA Operating Guidelines – Corporate Edition*, the *NACHA Operating Rules* govern.

The *NACHA Operating Guidelines - Corporate Edition* includes excerpts from the *NACHA Operating Guidelines* that are important to corporations. Refer to the *Guidelines* for originator roles and responsibilities within the ACH Network and an overview of various Standard Entry Class Codes. In addition, the *NACHA Operating Guidelines – Corporate Edition* offers details on the legal framework of the *Rules*, Third-Party Service Providers, OFAC Compliance, and a brief history of the development of the ACH Network.

Users of the corporate edition of the *NACHA Operating Rules & Guidelines* should be aware that certain chapters and/or section of the *NACHA Operating Guidelines* have been omitted from this document. Additional topics not addressed by this corporate edition and other important, more detailed information relating to the processing of ACH entries by both Originators and other ACH participants may be found within the complete *NACHA Operating Guidelines* contained within the 2013 *NACHA Operating Rules & Guidelines*.



## SECTION I

# General Information

## CHAPTER 1

### Overview of the System

The ACH Network is a batch processing system. Rather than sending each payment separately, financial institutions accumulate ACH transactions and sort them by destination for transmission during a predetermined time period. This provides significant economies of scale and faster processing than checks. Instead of using paper to carry necessary transaction information, ACH transactions are transmitted electronically between financial institutions through data transmission.

### ACH PARTICIPANTS

Listed below, and in Figure 1-1, are the participants that are involved in a typical ACH transaction:

1. the originating company or individual (Originator),
2. the Originating Depository Financial Institution (ODFI),
3. the ACH Operator,
4. the Receiving Depository Financial Institution (RDFI),
5. the receiving company, employee or customer (Receiver), and
6. the Third-Party Service Provider (optional).

#### Originator

The Originator is the entity that agrees to initiate ACH entries into the payment system according to an arrangement with a Receiver. The Originator is usually a company directing a transfer of funds to or from a consumer's or another company's account.

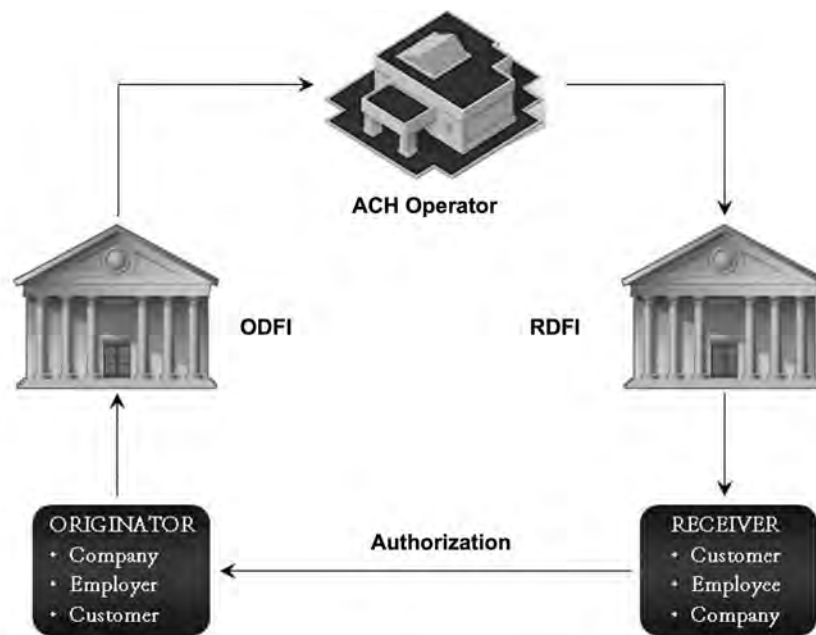


FIGURE 1-1 ACH PARTICIPANTS



In the case of a customer initiated entry, however, the Originator may be an individual initiating funds transfer activity to or from his or her own account. The term “company” is representative of the Originator of electronic ACH entries and does not imply exclusion of other types of organizations, such as a charity or government entity.

### ***Originating Depository Financial Institution***

The Originating Depository Financial Institution (ODFI) is the institution that receives the payment instructions from Originators and forwards the entries to the ACH Operator. A Depository Financial Institution may participate in the ACH Network as a Receiving Depository Financial Institution (RDFI) without being an ODFI; however, if a DFI chooses to originate ACH entries, it must also agree to act as an RDFI.

***ODFIs are discussed in detail in Section II of these Guidelines.***

### ***Automated Clearing House Operator***

An Automated Clearing House (ACH) Operator is a central clearing facility that receives entries from ODFIs, distributes the entries to appropriate RDFIs, and performs the settlement functions for the financial institutions. In some cases, there are two ACH Operators involved in a transaction, one operating as the Originating ACH Operator and the other as the Receiving ACH Operator.

***For a complete description of an ACH Operator, refer to Section IV of these Guidelines.***

### ***Receiving Depository Financial Institution***

The Receiving Depository Financial Institution (RDFI) is the Depository Financial Institution that receives ACH entries from the ACH Operator and posts them to the accounts of its depositors (Receivers).

***Section III of these Guidelines addresses RDFIs in detail.***

### ***Receiver***

A Receiver is a consumer or an organization that has authorized an Originator to initiate an ACH entry to the Receiver's account with the RDFI.

### ***Third-Party Service Provider***

In some instances, an Originator, ODFI, or RDFI may choose to use the services of a Third-Party Service Provider for all or part of the process of handling ACH entries. A Third-Party Service Provider is an entity other than the Originator, ODFI, or RDFI that performs any functions on behalf of the Originator, ODFI, or RDFI with respect to the processing of ACH entries. A function of ACH processing can include, but is not limited to, the creation of ACH files on behalf of an Originator or ODFI, or acting as a Sending Point or Receiving Point on behalf of an ODFI or RDFI, respectively.

A particular type of Third-Party Service Provider is the Third-Party Sender. A Third-Party Sender acts on behalf of the Originator when there is no agreement between the ODFI and Originator for ACH origination services.

As the ACH Network continues to evolve, Third-Party Service Providers have taken on larger and more complex roles in the processing of ACH transactions.

***For a detailed discussion of the specific roles and responsibilities of Third-Party Service Providers, refer to Chapter 50 within these Guidelines.***

## ***ACH TRANSACTION FLOW***

In ACH terminology, Originator and Receiver refer to the participants that initiate and receive the ACH entries. Unlike a check, which is always a debit instrument, an ACH entry may be either a credit or a debit transaction. By examining what happens to the Receiver's account, one can distinguish the difference between an ACH credit and an ACH debit transaction. If the Receiver's account is debited (balance decreased), then the entry is an ACH debit. If the Receiver's account is credited (balance increased), then the entry is an ACH credit. Conversely, the offset to an ACH debit is a credit to the Originator's account and the offset to an ACH credit is a debit to the Originator's account.

### ***ACH Credits***

ACH credit entries occur when an Originator initiates a transfer to move funds into a Receiver's

account. For example, when a corporate buyer originates a payment for goods through the ODFI, the ODFI initiates the credit transaction to transfer the money into the corporate seller's account at the RDFI. In this instance, the seller is the Receiver.

ACH credit transactions involve both consumer and corporate payments with distinct rules and regulations for each. The most typical consumer ACH application is Direct Deposit of payroll.

Some of the more common credits processed through the ACH Network are listed below:

- annuities
- customer-initiated transactions (e.g., telephone bill payments)
- corporate-to-corporate payments
- dividends
- interest payments
- payrolls – private and government
- pensions – private and government
- Social Security payments
- tax payments
- government vendor payments

The example in Figure 1-2 illustrates the ACH credit process.

### *Information and Funds Flow*

Example:

As illustrated in Figure 1-2, a payroll deposit (PPD) credit flows from an account at a company's financial institution to an account at an employee's financial institution. Figure 1-2 also illustrates the flow of a corporate trade exchange (CTX) credit from an account at a company's financial institution to an account at a vendor's financial institution. Credit entries must be posted to a Receiver's account no later than Settlement Date. Consumer (PPD) credit entries that are made available to the RDFI by its ACH Operator by 5:00 p.m. (RDFI's local time) on the banking day prior to Settlement Date must be made available by opening of business on the Settlement Date.

### **ACH Debits**

In an ACH debit transaction, funds flow in the opposite direction. Funds are collected from a Receiver's account and transferred to an Originator's account, even though the Originator initiated the entry. For example, the Originator of

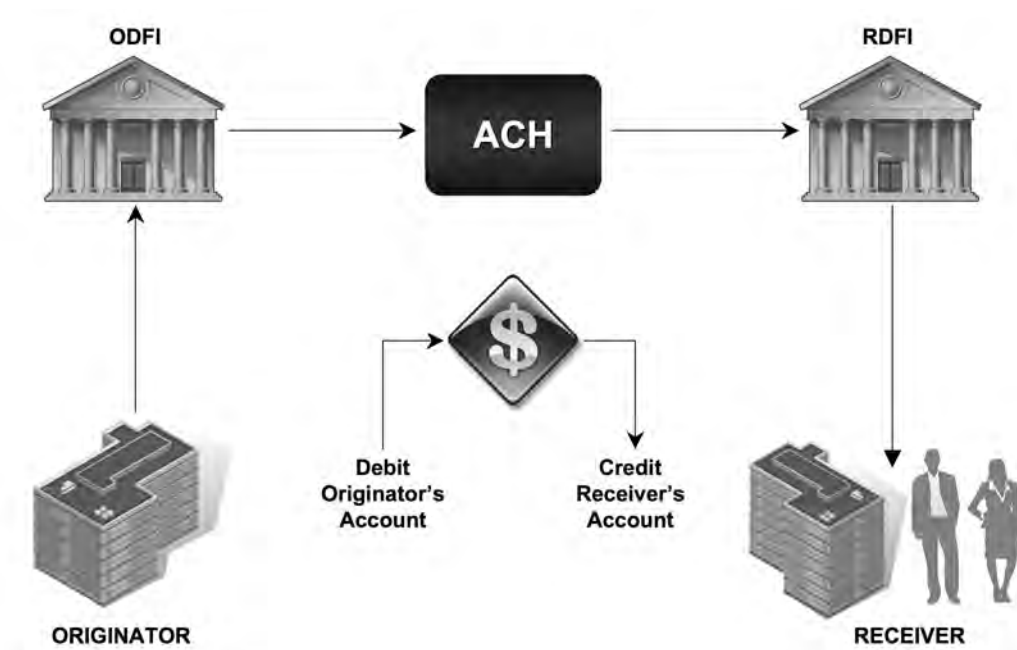


FIGURE 1-2 ACH CREDIT TRANSACTION INFORMATION AND FUNDS FLOW

a preauthorized debit is the company to which the amount is owed. Consumers authorize a company to debit their accounts for their monthly bills, such as mortgage payments or utilities. Once a month, the company initiates a file of ACH debits through its ODFI to withdraw the money from the consumers' accounts. The company is the Originator, and the consumers are the Receivers.

Below are some of the more common debit applications processed through the ACH Network today:

- association/club dues
- cash concentration
- corporate-to-corporate payments
- contributions to Individual Retirement Accounts, SEPs, 401Ks, etc.
- government savings bonds purchases
- holiday or vacation club payments
- insurance payments
- mortgage and installment loan payments
- point of sale purchases
- utility payments

- tax payments
- charitable donations

The example in Figure 1-3 illustrates the ACH debit process.

#### *Information and Funds Flow*

Example:

In Figure 1-3, a preauthorized mortgage payment flows from a consumer's account at a financial institution to a mortgage company's account. Figure 1-3 also illustrates a corporate cash concentration flow from a company's local or regional financial institution account to a company's regional or national financial institution account. Debit entries must not be posted to a Receiver's account prior to the Settlement Date.

A typical transaction as it flows through the ACH Network might follow the path described below:

- The Originating Depository Financial Institution (ODFI) and the originating company determine, by agreement, how the information must be delivered to the ODFI. In some cases, the Originator formats the data in accordance with

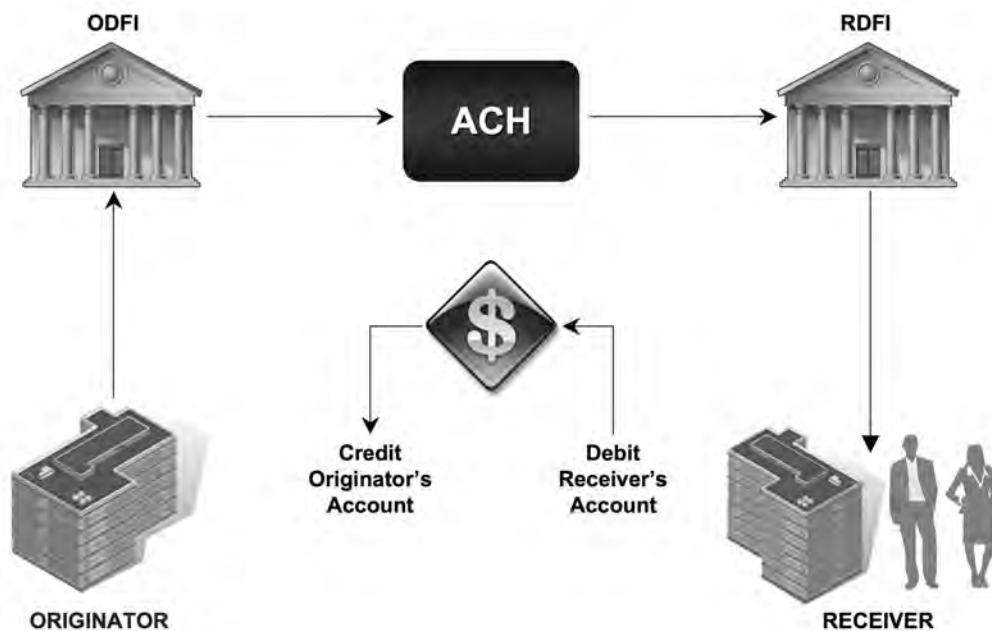


FIGURE 1-3 ACH DEBIT TRANSACTION

the requirements of the *NACHA Operating Rules* and transmits it the ODFI. In other instances, the ODFI may take unformatted data as a service to their client companies and does the formatting itself. The ODFI establishes processing schedules and cutoff times with its Originators so that entries may be processed and transmitted in sufficient time for settlement to occur on the dates desired by its Originators.

- The company delivers the file to its ODFI. The timing of delivery must conform to appropriate schedules in order for the payment to settle on the intended date.
- The ODFI generally removes “on-us” entries and transmits the remaining entries to the ACH Operator by the ACH Operator’s processing deadline. An “on-us” transaction is one in which the Receiver and the Originator both have accounts at the same financial institution. Therefore, the transaction need not be transmitted through the ACH Network but instead may simply be retained by the financial institution and posted to the appropriate account.
- The ACH Operator sorts the entries by RDFI routing number and transmits the payment information to the appropriate RDFI(s) for posting.

On Settlement Date, all the ODFI, RDFI and ACH Operator effect the appropriate settlement of funds.

### **Settlement**

Settlement is the actual transfer of the value of funds between financial institutions to complete the payment instruction of an ACH entry.

The Federal Reserve provides settlement services for ACH entries processed by the Federal Reserve and for private sector ACH Operators that process ACH entries. The Federal Reserve ACH Operator calculates the net credit and debit positions of financial institutions and applies those credits or debits to the reserve accounts of the financial institutions (or their correspondent banks) that are maintained on the books of the Federal Reserve.

The following are the three main participants (ODFI, ACH Operator, RDFI) and their responsibilities concerning settlement and posting.

### **ODFI**

Settlement with the ODFI for entries originated usually occurs using the same procedures used for settlement of entries received. If the scheduled Settlement Date of a credit entry is not a banking day for the ODFI, but the applicable Federal Reserve office is open on that date, settlement will occur on the scheduled Settlement Date.

Specific procedures and timing of settlement between the ODFI and the Originator are solely at the discretion of the ODFI and the Originator and, therefore, governed by agreement between them.

### **ACH Operator**

An ACH Operator calculates settlement totals owed to and by Participating DFIs based on the effective entry dates and processing dates contained within batches of transactions. An ACH Operators provides information to participants on the dollar amounts that will be settled for each institution on each Settlement Date. ACH entries processed by the Federal Reserve ACH Operator are settled against the Participating DFI’s settlement account held at the Federal Reserve. Settlement for transactions processed by private sector ACH Operators is determined by an arrangement with the Federal Reserve.

### **RDFI**

While settlement between the Originator and the ODFI is governed by agreement, settlement between the RDFI and the Receiver is determined by the *NACHA Operating Rules*, Federal Reserve availability schedules, and agreement.

When an ACH file is processed by the receiving ACH Operator, the ACH Operator will read the effective entry date in the Company/Batch Header Record and settle according to that date. If the file has been delivered to the ACH Operator so that the ACH Operator is able to settle on the effective entry date, it will insert the corresponding Julian Date in the Settlement Date field. If the ACH Operator cannot settle on the effective entry date due to a

stale date, weekend, or holiday, the ACH Operator will insert the Julian Date of the next business day into the Settlement Date field reflecting that settlement will occur on that date.

- Settlement information is produced by the ACH Operator as ACH entries are processed. This information is accumulated based on the type of entry (debit or credit) by Settlement Date. These settlement totals are reported to the RDFI or its settlement member correspondent.
- The ACH Operator may provide ACH settlement information in a machine-readable format to facilitate the automation of settlement accounting for correspondent RDFIs.
- RDFIs should balance settlement totals daily against totals posted to the RDFI's customer accounts and against any rejects that may occur on a daily basis. Rejects and other differences must be resolved immediately.
- ACH settlement procedures are the same for consumer and corporate transactions. In view of the large-dollar entries that flow through the ACH Network for corporate customers, RDFIs should have internal procedures in place to monitor large-dollar settlement totals.

### **Posting**

The RDFI is responsible for posting entries and for providing funds availability, both of which are determined by the Settlement Date in the Company Batch Header Record.

- ACH debits will be delivered to an RDFI no earlier than one banking day prior to the Settlement Date. *NACHA Operating Rules* state that debits cannot be posted prior to the Settlement Date.

If an RDFI is closed for business on the scheduled Settlement Date of a debit entry, but the Receiving ACH Operator is open, the RDFI will be debited on the scheduled Settlement Date unless it has advised the ACH Operator to delay settlement to the next business day of the RDFI. If the ACH Operator agrees to delay settlement, the RDFI must pay for any costs of float resulting from the deferral of settlement.

- ACH credits will be delivered to an RDFI no earlier than two banking days prior to the Settlement Date. It is recommended that credits be posted on the Settlement Date; credit entries may, however, be posted prior to the Settlement Date if the RDFI cannot warehouse the entries. *NACHA Operating Rules* require that credit entries must be available for withdrawal by the customer no later than the Settlement Date of the entry. Further, according to *NACHA Operating Rules*, each PPD credit entry that is made available to an RDFI by its ACH Operator by 5:00 p.m. (RDFI's local time) on the banking day prior to the Settlement Date must be made available to the Receiver for withdrawal at the opening of business on the Settlement Date. For this purpose, opening of business is defined as the later of 9:00 a.m. (RDFI's local time) or the time the RDFI's teller facilities (including ATMs) are available for customer account withdrawals.

## **CONSUMER VS. CORPORATE PAYMENTS**

ACH transactions are typically categorized as either consumer payments or corporate payments, depending on the relationship of the parties involved in the transaction and the type of Receiver account. (Note: The term "corporate payments" refers generally to any transaction to a non-consumer account and includes corporations, small businesses and non-profit organizations alike.) In addition, payments are distinguished as Federal Government payments (including automated disbursements originating from the United States Government, such as Social Security benefits, military and civilian payrolls, retirement benefits, tax refunds, and disbursements for state and federal revenue sharing programs) or commercial payments (initiated by both individual consumers and corporations).

Consumer payments currently made via the ACH Network include credit applications such as payroll, retirement, dividend, interest, and annuity payments, in addition to educational benefit reimbursements, payments and advances, and many others. Consumer ACH debit applications include, among others, the collection of insurance premiums, mortgage and rent payments, utility payments, installment payments, a variety of membership dues, and other recurring obligations.



Corporate ACH applications include cash concentration and disbursement, corporate trade payments, state and Federal tax payments and financial electronic data interchange (EDI). Cash concentration and disbursement allows companies to achieve efficiencies in cash management through timely intra-company transfer of funds. Corporate trade payments enable corporations to exchange both data and funds with trading partners, facilitating an automated process of updating their accounts receivable and accounts payable systems.

## **PAYMENT APPLICATIONS**

The ACH Network supports a number of different payment applications. Unlike the wire transfer and check systems, the ACH is both a credit and a debit payment system. An Originator initiating entries into the ACH Network codes the entries to indicate the type of payment, such as a debit or credit to a consumer or corporate account. In certain cases, a particular application may be used for both consumer and corporate transactions. Each ACH application is identified and recognized by a specific Standard Entry Class Code, which appears in the ACH record format. The Standard Entry Class Code also identifies the computer record format that carries the payment and payment related information for the application. ACH entries may be transmitted to a variety of account types. Both credit and debit entries may be transmitted to demand accounts, savings accounts, and financial institutions' general ledger accounts. Only credit entries (with the exception of reversals to correct erroneous credit transactions) may be transmitted to loan accounts. A list of Standard Entry Class Codes and the different products each code supports appears below.

### ***Consumer Applications***

#### ***CIE – Customer Initiated Entry***

Customer Initiated Entries are credit applications used when the consumer initiates the transfer of funds, typically to a company for payment of funds owed to that company. CIE entries are usually initiated through some type of home banking product or bill payment service provider.

#### ***MTE – Machine Transfer Entry***

The ACH Network supports the clearing of transactions from Automated Teller Machines, i.e., Machine Transfer Entries (MTE).

#### ***PPD – Prearranged Payment and Deposit Entry*** **Direct Deposit**

Direct deposit is a credit application that transfers funds into a consumer's account at the Receiving Depository Financial Institution. The funds being deposited can represent a variety of products, such as payroll, interest, pension, dividends, etc.

#### **Direct Payment**

Direct payment is a debit application. Through a written authorization, the consumer grants the company authority to initiate a debit – either one-time or recurring - to his or her account.

#### ***POS/SHR – Point of Sale Entry/ Shared Network Transaction***

These two Standard Entry Class Codes represent point of sale debit applications that occur in either a shared (SHR) or non-shared (POS) environment. These transactions are most often initiated by the consumer via a plastic access card.

#### ***RCK – Re-presented Check Entry***

Originators can use this Single-Entry debit transaction to re-present a check that has been processed through the check collection system and returned because of insufficient or uncollected funds. Using the ACH Network, compared to the check collection process, provides Originators with the potential to control the timing of the initiation of the debit entry and to decrease costs.

#### ***TEL – Telephone-Initiated Entry***

This Standard Entry Class Code is used to originate a debit entry to a consumer's account based on an oral authorization obtained from the consumer via the telephone. This type of transaction may only be originated when (1) there is an existing relationship between the Originator and the Receiver, or (2) where no relationship exists between the Originator and the Receiver, but the Receiver has initiated the telephone call.

### ***WEB – Internet-Initiated/Mobile Entry***

This Standard Entry Class Code is used to originate debit entries to a consumer's account based on an authorization that is communicated, other than by an oral communication, from the Receiver to the Originator via the Internet or a Wireless Network. This Standard Entry Class Code also includes debit entries authorized under any form of authorization when the instruction for the initiation of the entry is provided to the Originator, other than by an oral communication, over a Wireless Network. WEB entries can be either single or recurring entries. The WEB SEC Code helps to address unique risk issues inherent to the Internet and wireless payment environments through requirements for added security procedures and obligations.

### ***Corporate Applications***

#### ***CCD – Corporate Credit or Debit***

This application can be either a credit or debit application where funds are transferred between unrelated corporate entities, or transmitted as intra-company cash concentration and disbursement transactions. This application can serve as a stand-alone funds transfer, or it can support a limited amount of payment related data with the funds transfer.

#### ***CTX – Corporate Trade Exchange***

The Corporate Trade Exchange application supports the transfer of funds (debit or credit) in a trading partner relationship in which a full ANSI ASC X12 message or payment related UN/EDIFACT information is sent with the funds transfer. The ANSI ASC X12 message or payment related UN/EDIFACT information is placed in multiple addenda records.

### ***Applications Permitted to Both Consumer and Non-Consumer Accounts***

#### ***ARC – Accounts Receivable Entry***

This Standard Entry Class Code enables Originators to convert an eligible check received via the U.S. mail or delivery service, at a dropbox location, or in person for payment of a bill at a manned location to a Single-Entry ACH debit. The Originator uses the Receiver's source document (i.e., the check) to collect the Receiver's routing number, account number, check serial number, and dollar amount for the transaction. Authorization for an ARC

entry is obtained through notice provided to the Receiver by the payee and the Receiver's going forward with the transaction.

#### ***BOC – Back Office Conversion Entry***

This Standard Entry Class Code enables Originators to convert, during back office processing, an eligible check received at the point of purchase or manned bill payment location to a Single-Entry ACH debit. The Receiver's source document (i.e., the check) is used to collect the Receiver's routing number, account number, check serial number, and dollar amount for the transaction. Authorization for a BOC entry is obtained through notice provided by the Originator at the point of purchase or manned bill payment location and the Receiver's going forward with the transaction.

#### ***IAT – International ACH Transaction***

This Standard Entry Class Code identifies an ACH credit or debit entry that is part of a payment transaction that involves a financial agency's office that is not located within the territorial jurisdiction of the United States. These international payments convey specific information defined within the Bank Secrecy Act's "Travel Rule" to ensure that all parties to the transaction have the information necessary to comply with U.S. law, which includes the programs administered by the Office of Foreign Assets Control (OFAC).

#### ***POP – Point-of-Purchase Entry***

This ACH debit application is used as payment for the in-person purchase of goods or services. The Originator can initiate a single-entry debit based on a written authorization from the Receiver and notice provided by the Originator at the point of purchase or manned bill payment location. The source document, which is voided by the merchant and returned to the Receiver at the point-of-purchase, is used to collect the Receiver's routing number, account number, and check serial number to generate the debit entry to the Receiver's account.

### ***Other Applications***

#### ***ACK/ATX – Acknowledgment Entries***

These optional Standard Entry Class Codes can be used by the RDFI to acknowledge the receipt of ACH credit payments originated using the CCD or



CTX formats. These acknowledgments indicate to the Originator that the payment was received and that the RDFI will attempt to post the payment to the Receiver's account. Acknowledgment entries initiated in response to a CCD credit entry utilize the ACK format. Acknowledgments initiated in response to a CTX credit entry utilize the ATX format.

#### *ADV – Automated Accounting Advice*

This Standard Entry Class Code represents an optional service to be provided by ACH Operators that identifies advices of ACH accounting information in machine readable format for Participating DFIs.

#### *COR – Notification of Change or Refused Notification of Change*

This Standard Entry Class Code is used by an RDFI or ODFI when originating a Notification of Change or Refused Notification of Change.

#### *DNE – Death Notification Entry*

Federal Government agencies (e.g., Social Security Administration) can use this application to notify a depository financial institution that the recipient of a government benefit payment has died.

#### *ENR – Automated Enrollment Entry*

This SEC Code allows a depository financial institution to transmit ACH enrollment information to Federal Government agencies via the ACH Network for future credit and debit applications on behalf of both consumers and companies.

#### *TRC/TRX – Truncated Entries*

This Standard Entry Class Code identifies batches of truncated checks.

***For more information on check truncation, please see the Operating Rules of the National Association for Check Safekeeping, available for purchase from NACHA.***

#### *XCK – Destroyed Check Entry*

This application can be utilized by a collecting institution for the collection of (1) certain checks that have been destroyed or lost, (2) checks that have been damaged such that processable images

cannot be made, and (3) check images that are unprocessable.

## CHAPTER 2

### Legal Framework

The ACH process operates from beginning to end through a series of legal agreements. Every ODFI and RDFI that transmits entries through the ACH Network must have an agreement with an ACH Operator that binds it to the *NACHA Operating Rules*. Before any transaction is initiated, the Originator and ODFI execute an agreement to use the ACH Network to originate payments. The agreement must bind the originating company to the *NACHA Operating Rules*, identify restrictions on the type of ACH transactions that can be originated, and address the ODFI's right to terminate or suspend the agreement for a breach of the *Rules*. In addition, the agreement should define the parameters of the relationship between the two parties, identify processing requirements for the specific application(s), and establish liability and accountability for procedures related to certain application(s). In some cases, agreements exist between the RDFI and the Receiver, particularly if the Receiver is a non-consumer or government entity.

While the *NACHA Operating Rules* is the primary document addressing the rules and regulations for the commercial ACH Network, Federal Government ACH payments are controlled by the provisions of Title 31 Code of Federal Regulations Part 210 (31 C.F.R. Part 210). The Financial Management Service (FMS) of the U.S. Department of the Treasury is the agency responsible for establishing Federal Government ACH policy. In 1999, 31 C.F.R. Part 210 was revised by FMS to adopt the provisions of the *NACHA Operating Rules* as the regulations governing the transmission and receipt of Federal Government ACH entries, with certain exemptions to address matters of Federal law. FMS also publishes The Green Book, a procedural manual for Federal Government ACH payments.

Other laws that have a direct bearing on ACH operations are the Uniform Commercial Code Article 4 (which governs check transactions) and Article 4A (which governs funds transfers), and the Electronic Funds Transfer Act as implemented by Regulation E. Certain other activities related to ACH payments are affected by The Right to Financial Privacy Act, Regulation D regarding reserve requirements, Regulation CC regarding funds availability, and other regulatory agency directives. Relationships between the consumer as Receiver and the RDFI are generally governed by Regulation E and the account agreement.

## REGULATION D

The Federal Reserve Board's Regulation D imposes reserve requirements on certain deposits held by depository institutions, including all FDIC-insured banks, insured credit unions, savings banks, and mutual savings banks. Depository institutions must maintain reserves in the form of cash in their vaults or, if vault cash is insufficient, as a balance in an account at a Federal Reserve Bank or with a pass-through correspondent. Reserve requirements are currently between three and ten percent of a depository institution's net "transaction accounts."

A "transaction account" is an account from which the depositor may make transfers or withdrawals by check, debit card, or other electronic instruction. If an account does not permit the depositor to make more than six such transfers or withdrawals per month, the institution may classify the account as a "savings deposit" and not a transaction account. Savings deposits are not subject to the reserve requirement.

If the financial institution permits more than the authorized number of transfers or withdrawals per month from an account, that account is a transaction account even if the institution calls it a savings deposit or "savings account," and is thus subject to transaction account reserve requirements. If a depository institution gives a customer access to savings accounts via the ACH Network or another electronic payments mechanism, the account generally must be classified as a transaction account, unless the specified kinds of withdrawals and transfers are limited in number each month to not more than six per month (including ACH debit).

***Additional information on Reg D is available on the Federal Reserve's website at <http://www.federalreserve.gov/bankinfo/reg/reglisting.htm>.***

## REGULATION E

Regulation E implements the Electronic Fund Transfer Act (EFTA). The regulation establishes basic rights and responsibilities of consumers and financial institutions that use electronic funds transfer services. Regulation E (Reg E) applies to consumer transactions only and provides a series of protections to consumer users of electronic funds transfers.

Topics covered in Reg E include similarly authenticated written authorizations; authorization requirements for merchants and other payees that initiate electronic check transactions; pre-authorized electronic funds transfers; notice obligations for Originators; initial and periodic disclosures; error resolution; and other issues. The Official Staff Interpretations of Reg E provide guidance on the regulation's coverage of electronic check conversion transactions, computer-initiated bill payments, as well as authorization of recurring debits from a consumer's account, among other matters.

Reg E applies to any electronic fund transfer that authorizes a financial institution to debit or credit a consumer's account, with certain exceptions. Electronic fund transfer means any transfer of funds that is initiated through an electronic terminal, telephone, computer, or magnetic tape for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit a consumer's account.

The term "electronic fund transfer" includes, but is not limited to:

- POS transfers
- ATM transfers
- Direct deposits or withdrawals of funds
- Telephone transfers
- Debit card transactions

Reg E coverage also extends to situations in which a check, draft, or similar paper instrument is used

as a source of information to initiate a one-time electronic fund transfer from a consumer's account. A check enables the merchant or other payee to capture the routing, account and serial numbers to initiate the transfer.

Reg E does not govern:

- Electronic debits or credits to non-consumer accounts
- Checks
- Check guarantee or authorization services
- Any transfer of funds through Fedwire or through a similar wire transfer system that is used primarily for transfers between financial institutions or between businesses
- The purchase or sale of securities or commodities (1) regulated by the Securities and Exchange Commission (SEC) or the Commodities Futures Trading Commission (CFTC); (2) purchased or sold through a broker-dealer regulated by the SEC or CFTC, or (3) held in book entry form by a Federal Reserve Bank or federal agency.
- Automatic transfers under agreement between a consumer and financial institution, which provides that the institution will initiate individual transfers without a specific request from the consumer, including interest and loan payments, transfers from checking to savings and vice versa, and transfers between family members' accounts held in the same financial institution.
- Telephone-initiated transfers between a consumer and a financial institution that do not take place under a telephone bill payment or other prearranged plan or agreement
- Preauthorized debits or credits to financial institutions whose asset size is \$100 million or less

***Additional information about Reg E can be found on the Federal Reserve's website. Visit <http://www.federalreserve.gov/bankinfo/reg/regist.htm> for the latest, detailed information on Reg E.***

## UCC 4A

Article 4A of the Uniform Commercial Code (UCC) applies to payment orders addressed to a bank to pay money to a beneficiary. It is a comprehensive body of state law that governs wholesale EFT credit transactions, including those transmitted over CHIPS, Fedwire, the ACH Network, and as on-us entries. Wholesale credit transfers are payments that are transmitted through the banking system by financial institutions and commercial entities to non-consumer accounts. Check or other debit transfers, including ACH debit transactions, are not covered under Article 4A.

Consumer electronic funds transfers subject to Regulation E, including ACH credit transactions, are not subject to UCC 4A. However, there is one exception to this coverage. Since preauthorized consumer credits to financial institutions with an asset size of \$100 million or less are not covered by Reg E, consumer ACH credits that fall in this category are also not covered by Reg E. Instead, these consumer ACH credit transactions are subject to UCC 4A.

Article 4A provides for a "choice of law" to determine which state's substantive law will be applied to the various parties of an electronic credit. The *NACHA Operating Rules* specify that, unless there are agreements that state otherwise, ACH transactions are governed by the version of UCC 4A adopted by the state of New York.

UCC 4A is structured to provide incentives for the Originator, ODFI or RDFI involved in a transaction that is in the best position to avoid loss to do so. The article imposes interest penalties on the offending party for delayed transfers.

Although some provisions of Article 4A may be altered by the agreement between the ODFI and Originator or between the RDFI and Receiver, some cannot. Those provisions that can be altered may be overruled by the *NACHA Operating Rules*. However, the *Rules* do not address issues or disputes between financial institutions and their customers.

***More information on UCC 4A can be found in the NACHA publication, Revised Uniform Commercial Code Article 4A and the Automated Clearing House Network.***

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## CHAPTER 3

# OFAC Requirements and Obligations

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The U.S. Treasury Department's Office of Foreign Assets Control (OFAC) administers economic sanctions and embargo programs that require assets and transactions involving interests of target countries, target country nationals, and other specifically identified companies and individuals be frozen. For purposes of OFAC compliance, these entities are referred to as "Specially Designated Nationals and Blocked Persons." OFAC maintains and regularly updates a master list (SDN List) identifying known "blocked parties."

All of the sanctions programs enforced by OFAC involve declarations of national emergency by the President of the United States. As with all payment mechanisms, the ACH Network is subject to the requirement to comply with OFAC-enforced sanctions policies.

Who is subject to OFAC? All U.S. citizens and permanent resident aliens, companies located in the U.S., overseas branches of U.S. companies, and, in some cases, overseas subsidiaries of U.S. companies fall under OFAC jurisdiction. In terms of the ACH Network, this means that all U.S. ACH participants, including Originators, Originating Depository Financial Institutions (ODFIs), Receiving Depository Financial Institutions (RDFIs), Receivers and third-parties need to be aware that they can be held accountable for sanctions violations by the U.S. Government and must understand their compliance obligations.

## SCOPE OF COVERAGE

OFAC responsibilities for a financial institution vary depending on whether the transaction is considered

domestic or international. This Chapter is divided into two sections: Domestic ACH OFAC Obligations and International ACH OFAC Obligations.

## DOMESTIC ACH OBLIGATIONS

In September 1997, the *NACHA Operating Rules* were amended to require that Originator/ODFI agreements include an acknowledgment by the Originator that ACH transactions it originates comply with the laws of the United States ("NACHA Rule"). The effect of this rule change is to focus financial institution liability for inadvertent processing of a domestic ACH transaction in violation of OFAC-enforced sanctions policies on the financial institution holding the account of the blocked party.

## IMPACT TO ACH NETWORK PARTICIPANTS FOR DOMESTIC ACH TRANSACTIONS

### Originators

Domestic Originators should be aware that they are subject to applicable U.S. law, including OFAC-enforced sanctions, when initiating ACH entries. Foreign Originators initiating transactions with a financial institution that is under U.S. jurisdiction similarly must be aware that the institution is subject to OFAC-enforced sanctions. Originators in either category should not be acting on behalf of, or transmitting funds to or from, any blocked party subject to OFAC-enforced sanctions. Agreements between ODFIs and Originators should include a statement that the Originator acknowledges that it may not initiate ACH entries that violate the laws of the United States. Originators should be aware that they will be held to an obligation to originate only lawful ACH transactions under such agreements with their ODFIs. Originators of ACH transactions should also be aware that their ODFI may from time to time need to temporarily suspend processing of a transaction (particularly an International ACH Transaction) for greater scrutiny or verification against the SDN List, and that this action may affect settlement and/or availability.

### ODFIs

ODFIs that choose to originate ACH entries on behalf of their customers should be aware that



both they and their Originators are subject to the *NACHA Operating Rules* and applicable U.S. law when transmitting these entries. ODFIs should make this obligation clear in their agreements with Originators. ODFIs processing International ACH Transactions may also find it beneficial to include in their agreements a reference to possible delays in processing, settlement and/or availability of these transactions when the ODFI determines that enhanced scrutiny or verification may be necessary.

The *NACHA Operating Rules* reflects the “Know Your Customer” principle that the ODFI will verify the Originator is not a blocked party and that a good faith effort will be undertaken to determine, through the normal course of business, that the Originator is not engaged in transmitting funds to, from, or on behalf of a party subject to a blocking action. If the ODFI encounters a transaction in the normal course of business initiated by an Originator that would violate OFAC-enforced sanctions, federal law requires the ODFI to comply with OFAC policies. Under U.S. law, the ODFI is responsible for freezing or rejecting the proceeds of illicit ACH transactions involving interests of blocked parties for whom the ODFI holds an account. As a depository financial institution, the ODFI should have a process in place to determine whether any of its account holders is identified as a blocked party in a current SDN List (see section on “Account Screening” below).

#### *Origination of Entries*

With respect to domestic ACH transactions, by addressing the issues above, the ODFI may rely on the RDFI for compliance with OFAC policies when it is the RDFI that holds the account or is otherwise acting on behalf of a blocked person.

As noted above, the ODFI should address the Originator’s obligation to comply with U.S. laws in its origination agreement. The ODFI should also recognize that when unbundling “on us” transactions (i.e., the ODFI is also the RDFI for a transaction) from files received for processing from an Originator, it will need to review these transactions with greater scrutiny since it is servicing both sending and receiving sides.

#### *Entries Violating OFAC Sanctions*

Each ODFI should be aware that if it inadvertently transmits an unlawful ACH credit entry to a Receiver that is subject to OFAC sanctions, the RDFI holding the blocked party’s account is obligated to post the credit entry to the Receiver’s account, freeze the proceeds, and report the transaction to OFAC.

In the event that the ODFI inadvertently processes an unlawful ACH debit entry to a blocked account, the RDFI holding the blocked account (or an intermediary receiving point such as a correspondent or third-party processor able to identify the transaction), in compliance with OFAC policies, should return the entry in accordance with the *NACHA Operating Rules* using Return Reason Code R16 (Account Frozen). In this way, the proceeds do not leave the blocked account and the ODFI is informed of the reason.

If the ODFI is instructed to originate an ACH debit entry that it has reason to believe would be an unlawful transaction, NACHA has been advised that OFAC would prefer that the transaction be transmitted so that, if not returned or rejected by the RDFI, the proceeds from the transaction can be captured by the ODFI, frozen and reported to OFAC. See section on “Handling IAT Debit Processing” for more information.

#### *Identification of Blocked Parties*

As blocked parties and related transactions may be difficult to identify in the normal course of business, ODFIs may wish to become familiar with how to locate and interpret lists of specially-designated nationals and blocked persons subject to U.S. sanctions to facilitate OFAC compliance and avoid liability for monetary penalties. Consultation with counsel, audit/compliance staff, and/or wire transfer operations personnel — in addition to visiting and becoming familiar with the OFAC website at <http://www.treas.gov/ofac> — is recommended. There are also several vendors of online or database SDN identification services that can assist financial institution reviews at the account level, including the new account set-up phase or reviewing existing accounts when new blocked parties are added to the SDN List.

### ***RDFIs***

RDFIs should be aware that they are subject to the requirements of the *NACHA Operating Rules* and applicable U.S. law when processing ACH entries. This includes the need to comply with OFAC enforcement policies in the event that the RDFI receives an ACH transaction being made to, from, or on behalf of any party subject to OFAC sanctions. As a depository financial institution, the RDFI should have a process in place to determine whether any of their account holders is identified as a blocked party in a current SDN List (see section on “Account Screening” below).

### ***Receipt of Entries***

With respect to domestic ACH transactions, the RDFI is responsible for rejecting or freezing the proceeds of a transaction involving interests of a blocked party for whom the RDFI holds an account or on whose behalf the RDFI is acting.

### ***Entries Violating OFAC Sanctions***

In the event that an ODFI inadvertently transmits an unlawful ACH credit entry to a Receiver that is subject to OFAC sanctions, the RDFI holding the blocked party’s account should post the credit entry to the account, ensure the account is frozen, and report the transaction to OFAC. In the event that an ODFI inadvertently transmits an unlawful ACH debit entry, the RDFI holding the account should ensure the account is frozen, report the transaction to OFAC, and return the entry in accordance with the *NACHA Operating Rules* using Return Reason Code R16 (Account Frozen) with advice that the entry was destined to an account frozen due to OFAC blocking action.

### ***Identification of Blocked Parties***

As blocked parties and related transactions may be difficult to identify in the normal course of business, RDFIs may wish to become familiar with how to locate and interpret lists of specially-designated nationals and blocked persons subject to U.S. sanctions to ensure compliance and avoid liability for sizeable monetary penalties. Consultation with counsel, audit/compliance staff, and/or wire transfer operations personnel is recommended.

### ***Receivers***

Domestic Receivers (and those otherwise under U.S. jurisdiction) are subject to U.S. law, including OFAC sanctions, and should be aware that their financial institutions are subject to both U.S. law and the *NACHA Operating Rules* when handling ACH transactions on their behalf. This may involve delays in posting, settlement and the availability of proceeds — particularly for ACH transactions initiated by parties outside U.S. jurisdiction — if an RDFI finds it necessary to scrutinize a transaction in more detail. In the case where there appears to be a violation of U.S. sanctions policies, proceeds from an ACH credit may be frozen and therefore unavailable to the Receiver pursuant to a blocking action. For unlawful ACH debits, Receivers may have the proceeds debited from their account and frozen by either the RDFI or the ODFI pursuant to a blocking action.

### ***Third-Parties***

Third-parties (including processors and correspondent/respondent banks) should recognize that OFAC sanctions enforcement applies to their role as it would the party they are acting on behalf of. For example, a third-party acting on behalf of a number of downstream corporate Originators should recognize that its ODFI will hold it accountable for ensuring that ACH transactions it introduces into the domestic ACH Network comply with U.S. law. This means that the ODFI has to rely on the third party to police downstream parties for which it is acting.

Similarly, a domestic respondent bank/RDFI receiving ACH transactions through a correspondent bank should not automatically assume that its correspondent will have intercepted and frozen any unlawful transactions it has processed on the respondent’s behalf. While there may be some attention focused on the correspondent in the event of an unlawful transaction being passed through, the correspondent serving the RDFI is generally not in a position to verify the identity of the RDFI’s accountholder (or the ODFI’s Originator) on a particular ACH transaction.

## INTERNATIONAL ACH OFAC OBLIGATIONS

Financial institution OFAC compliance policies should include the processing of IAT transactions. In a letter from OFAC to NACHA dated November 9, 2004, OFAC outlined their expectations for both the ODFI and RDFI. “U.S. RDFIs and beneficiaries will continue to have an obligation to ensure that all aspects of inbound, cross-border transactions are in compliance with OFAC regulations and to take appropriate steps to investigate, suspend, reject, block and report on transactions as necessary.” “U.S. ODFIs and their Originators will continue to be responsible for ensuring that all parties to the transactions, as well as the underlying purpose of the transactions, are not in violation of OFAC regulations, and they will need to take appropriate steps to investigate, suspend, reject, block, and report on transactions.”

## OFAC VS. REGULATION E, REGULATION CC, AND THE NACHA OPERATING RULES

When performing an OFAC review of a suspect transaction, it may take some time to obtain sufficient information on the parties to the transaction to clear the suspect item. NACHA has modified the *NACHA Operating Rules*, Article One, Section 1.2, Subsection 1.2.1 Effect of Illegality to allow financial institutions the time necessary to clear a suspect transaction before it is processed.

***For more information of the Effect of Illegality, see Chapter 43 of these Guidelines.***

Questions have been raised about the impact of Regulation E and Regulation CC on consumer transactions and OFAC requirements and which regulation takes precedence.

Most of the OFAC programs that fall under the International Emergency Economic Powers Act and the Trading with the Enemy Act involve “declarations of national emergency” by the President and both contain “hold harmless” provisions for complying with sanctions law. The following sections site the specific sections of the regulations.

## International Emergency Economic Powers Act

50 U.S.C. § 1702(a)(3) Presidential authorities

Compliance with any regulation, instruction, or direction issued under this chapter shall to the extent thereof be a full acquaintance and discharge for all purposes of the obligations of the person making the same. No person shall be held liable in any court for or with respect to anything done or omitted in good faith in connection with the administration of, or pursuant to and in reliance on, this chapter, or any regulation, instruction, or direction issued under this chapter.

## Trading with the Enemy Act

50 U.S.C. App. § 5(b)(2)

Any payment, conveyance, transfer, assignment, or delivery of property or interest therein, made to or for the account of the United States, or as otherwise directed, pursuant to this subdivision or any rule, regulation, instruction, or direction issued hereunder shall to the extent thereof be a full acquaintance and discharge for all purposes of the obligation of the person making the same; and no person shall be held liable in any court for or in respect to anything done or omitted in good faith in connection with the administration of, or in pursuance of and in reliance on, this subdivision, or any rule, regulation, instruction, or direction issued hereunder.

## DEMONSTRATING COMPLIANCE

For a financial institution to demonstrate OFAC compliance, it must have a clear and thorough ACH OFAC policy and procedures manual (or section on ACH OFAC policies and procedures in its OFAC policy and procedures manual), educate and train its employees on the new policies, and have a compliance system or



procedure that allow for the proper handling of all transactions and customers. Some of the items that should be covered in the ACH OFAC policy are:

- Who is responsible for OFAC compliance;
- How the organization maintains an up-to-date listing of prohibited countries, organizations, and individuals (detail how the organization obtains the information from OFAC and when);
- How specific transactions are handled (i.e. debits, credits);
- What information is checked against the “SDN” list;
- OFAC reporting procedures;
- Record retention; and
- OFAC compliance audit.

## **IMPACT TO ACH NETWORK PARTICIPANTS FOR INTERNATIONAL ACH TRANSACTIONS (IAT)**

### ***Gateways***

The Gateway is defined as either a financial institution or an ACH Operator that acts as the entry point to or exit point from the United States for IAT entries. The capabilities and responsibilities vary between financial institution and ACH Operator.

### ***ACH Operator Acting as a Gateway***

An ACH Operator acting as a Gateway may process Outbound IAT debit and credit entries but may only process Inbound IAT credit entries and reversing debits. No Inbound IAT debit entries may be processed by an ACH Operator acting as a Gateway.

An ACH Operator acting as a Gateway must review all IAT entries for OFAC compliance and populate the Gateway Operator OFAC Screening Indicator (Field 10 of the IAT Entry Detail Record) with the results of the review before passing the entry to the RDFI. The ACH Operator is not required to investigate any suspect transaction.

### ***Financial Institution as a Gateway***

A financial institution acting as a Gateway may process Inbound and Outbound IAT credit and debit transactions. The FI acting as a Gateway must review the IAT transactions for OFAC compliance. Although populating the Gateway Operator OFAC Screening Indicator with the results of the scan is optional, it is a good business practice. OFAC has stated that the responsibility for investigating suspect IAT transactions may be passed to the RDFI, but within the *NACHA Operating Rules*, the Gateway has taken on the warranties and responsibilities of the ODFI. As such, the Gateway warrants that all transactions originated are in compliance with U.S. law. To that end a financial institution acting as a Gateway should investigate and clear any suspect IAT transactions before they are originated into the ACH Network. If an IAT debit transaction is found to be in violation of an OFAC sanctions policy, OFAC has stated that all processing should cease; that the Gateway/ODFI is to notify OFAC within 10 days. The Gateway should notify the Foreign Gateway that the item has been rejected or frozen because it was in violation of U.S. law, and the Gateway should send a copy of the unlawful transaction to the RDFI.

### ***Originators***

Corporate Originators should be aware that they are subject to applicable U.S. law, including OFAC-enforced sanctions, when initiating ACH entries. Originators should not be acting on behalf of, or transmitting funds to or from, any blocked party subject to OFAC-enforced sanctions. Agreements between ODFIs and Originators should include a statement that the Originator acknowledges that they may not initiate ACH entries that violate the laws of the United States. Originators should be aware that they will be held to an obligation to originate only lawful ACH transactions under such agreements with their ODFIs. Originators of ACH transactions should also be aware that their ODFI may, from time to time, need to temporarily suspend processing of an IAT transaction for greater scrutiny or verification against the SDN List, and that this action may affect settlement and/or availability.

### **ODFIs**

ODFIs that choose to originate ACH entries on behalf of their customers should be aware that both they and their Originators are subject to the *NACHA Operating Rules* and applicable U.S. law when transmitting these entries. ODFIs should make this obligation clear in their agreements with Originators.

The ODFI is responsible for reviewing all IAT transactions for OFAC compliance prior to the items being released to the ACH Operator. All parties to the transactions should be reviewed including the name and physical address of the Originator and Receiver, the receiving bank name, identification and branch country code, and any remittance information in the Payment Related Information contained in the optional Remittance Information addenda record. If suspect transactions are identified during the review, the items should be investigated and cleared before the transactions are released to the ACH Operator. If the ODFI encounters a transaction initiated by an Originator that would violate OFAC-encountered sanctions, Federal law requires the ODFI to comply with OFAC policies. Under U.S. law, the ODFI is responsible for freezing or rejecting (depending on the specifics of the particular sanctions program) the proceeds of illicit ACH transactions involving interests of blocked parties.

### **RDFIs**

RDFIs should be aware that they are subject to the requirements of the *NACHA Operating Rules* and applicable U.S. law when processing ACH entries. This includes the need to comply with OFAC enforcement policies in the event that the RDFI receives an ACH transaction being made to, from, or on behalf of any party subject to OFAC sanctions. The RDFI is responsible for rejecting or freezing the proceeds of a transaction involving interests of blocked parties.

#### *Timing of OFAC Screening of IAT Transactions*

NACHA has received reports that some RDFIs do not screen IAT entries for OFAC compliance prior to posting them to the Receiver's account. In some cases, this is due to system or software constraints at the RDFI. NACHA contacted OFAC requesting comment on this practice and received a letter

from OFAC (GEN-594137) stating its position. In the letter, OFAC states:

“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.”

A copy of OFAC’s letter can be found on the IAT Resource page on the NACHA website at [www.nacha.org](http://www.nacha.org)

### *Handling Unlawful Transactions*

#### **Credit Entries:**

If the RDFI receives an inbound unlawful IAT credit entry to a Receiver that is subject to OFAC sanctions, the RDFI holding the blocked party’s account should post the credit entry to the account, ensure the account is frozen, and report the transaction to OFAC.

If the Originator of the IAT entry is subject to OFAC sanctions the transaction should not be posted to the Receiver’s account, the funds should be suspended and the transaction reported to OFAC.

#### **Debit Entries:**

If the RDFI receives an unlawful IAT debit entry, the RDFI should investigate the transaction and, if it is found to be in violation of an OFAC sanction, should contact OFAC for guidance. OFAC will handle these transactions on a case-by-case basis.

There is no time limit for the resolution of the suspect transaction. The RDFI needs to ensure that it communicates with the ODFI on the resolution of the suspect transaction.

### **Receivers**

Receivers are subject to U.S. law, including OFAC sanctions, and should be aware that their financial institutions are subject to both U.S. law and the *NACHA Operating Rules* when handling ACH transactions on their behalf. This may involve delays in posting, settlement and the availability of proceeds — particularly for ACH transactions initiated by parties outside U.S. jurisdiction — if an RDFI finds it necessary to scrutinize a transaction in more detail. In the case where there appears to be a violation of U.S. sanctions policies, proceeds from an ACH credit may be frozen and therefore unavailable to the Receiver due to a blocking action. For unlawful ACH debits, Receivers may have the proceeds debited from their accounts and frozen by the RDFI pursuant to a blocking action.

### **Third-Parties**

Third-parties (including processors and correspondent/respondent banks) should recognize that OFAC sanctions enforcement applies to their role as it would the party they are acting on behalf of. For example, a third-party acting on behalf of a number of downstream corporate Originators should recognize that its ODFI will hold it accountable for ensuring that ACH transactions it introduces into the domestic ACH Network comply with U.S. law. This means that the ODFI has to rely on the third-party to police downstream parties for which it is acting.

Similarly, a domestic respondent bank/RDFI receiving ACH transactions through a correspondent bank should not automatically assume that its correspondent will have intercepted and frozen any unlawful transactions it has processed on the respondent's behalf. While there may be some attention focused on the correspondent in the event of an unlawful transaction being passed through, the correspondent serving the RDFI is generally not in a position to verify the identity of the RDFI's account-holder (or the ODFI's Originator) on a particular ACH transaction.

## **RECOMMENDED PROCEDURES FOR HANDLING INBOUND IAT DEBIT TRANSACTIONS**

NACHA developed the following recommendations and guidance for Gateways and RDFIs for processing inbound IAT debits in accordance with OFAC requirements.

Inbound IAT debit transactions are debits that are being originated into the U.S. ACH Network by U.S. financial institutions acting as Gateways. Inbound IAT debit transactions will not be processed through the FedACH International Service. While a Gateway is also, by definition, the ODFI for an inbound IAT debit, the recommendations here are intended to address the financial institution's role as a Gateway. Nothing here should be construed to apply to ODFIs for any transactions other than inbound IAT debits.

NACHA strongly encourages financial institutions that are considering serving as Gateways to thoroughly understand OFAC requirements, transaction risks, and operational issues for various processing scenarios. Financial institutions should have well-thought-out business plans and should thoroughly understand the implications and responsibilities of processing IAT debit transactions.

The recommendations and guidance contained within this section reflect the expectations of OFAC — they are not requirements of the *NACHA Operating Rules*. Financial institutions can always contact OFAC for guidance whenever appropriate.

### **OFAC Requirements Related to Inbound IAT Debits**

Under OFAC's requirements, a Gateway that identifies the presence of a blocked party in an inbound IAT debit should cease processing the entry, and should take several additional steps to report the hit to OFAC, the Foreign Gateway, and the RDFI.

OFAC further expects that Gateways' notifications to RDFIs about OFAC hits will eventually take place through the ACH Network. NACHA will issue additional guidance when methods and procedures for these notifications are established.

### ***Gateway (ODFI) Responsibilities for Inbound IAT Debit Transactions***

A financial institution acting as a Gateway (ODFI) for Inbound IAT debits should:

- Review all Inbound IAT debits for OFAC compliance, including all parties to the transaction and all remittance data;
- Segregate any suspect transactions into an OFAC review module or queue;
- Populate the Gateway Operator OFAC Screening Indicator (Field 10, IAT Entry Detail Record) for clean transactions with “0.” (NOTE: This field is Optional under the *NACHA Operating Rules*, but its use is strongly encouraged);
- Rebalance the original batch and file, if necessary, and send to the ACH Operator (see section below on Gateway Procedures for Rebalancing a Batch and File);
- Investigate suspect transactions:
  - For a suspect transaction cleared by the investigation:
    1. Populate the Gateway Operator OFAC Screening Indicator (Field 10, IAT Entry Detail Record) for clean transactions with “0.” (NOTE: This field is Optional under the *NACHA Operating Rules*, but its use is strongly encouraged);
    2. Batch cleared transactions and send to the ACH Operator for normal processing and settlement.
  - For transactions confirmed as an OFAC hit:
    1. Cease processing of the entry;
    2. Notify the Foreign Gateway that the debit entry has been rejected and is in violation of U.S. law;
    3. Notify OFAC within 10 days;
    4. Notify the RDFI that the transaction destined for one of its customers has been rejected, and provide a copy of the transaction.

Under these processing guidelines, there should be no instances in which a Gateway transmits an inbound IAT debit in which there is a “1” in the OFAC Screening Indicator. All suspect transactions would either be cleared or processing would cease.

### ***Gateway Procedures for Rebalancing a Batch and File***

ACH operations software should rebalance the batch and file to include revisions to the following fields: Total Debit Entry Dollar Amount in Batch/File, Total Credit Entry Dollar Amount in Batch/File, Entry/Addenda Count and Entry Hash at both the Batch Control and File Control level and, possibly, the Batch Count and/or Block Count in the File Control Record.

### ***RDFI Responsibilities for Inbound IAT Debit Transactions***

An RDFI should recognize that it may receive IAT debits and be prepared in advance to handle the IAT debits. The RDFI for Inbound IAT debits should:

- Review all incoming IAT debits for OFAC compliance. (NOTE: Use of the Gateway Operator Screening Indicator field by the Gateway is optional. An RDFI should not assume a transaction is clean because of the presence of a “0” in the Gateway Operator OFAC Screening Indicator (Field 10, IAT Entry Detail Record), or because of the absence of any indicator in this field. The RDFI should rely on the results of its own investigation.);
- Post clean transactions normally, and within the timeframes required under the *NACHA Operating Rules*;
- Investigate any suspect IAT debits:
  - For a suspect transaction cleared by an investigation, post normally;
  - For a suspect transaction confirmed as an OFAC hit — contact OFAC directly. The Gateway may have missed this transaction or the OFAC list may have been revised. OFAC will handle these situations on a case-by-case basis.



Under these processing guidelines, there should be no instances in which an RDFI receives an inbound IAT debit in which there is a “1” in the OFAC Screening Indicator. This does not relieve the RDFI of its obligation to screen the IAT debits that it receives and report SDN hits to OFAC.

If an RDFI receives notification from a Gateway that an inbound IAT debit destined for one of its accounts has been rejected due to the presence of a blocked party (as described in the Gateway Responsibilities section), the RDFI should take appropriate due diligence measures.

## DEBIT BLOCKS AND FILTERS

A number of financial institutions currently offer a debit block service to their corporate customers. For an IAT debit that is not in violation of an OFAC sanctions program, an IAT debit processed against an account with a debit block may be returned as unauthorized as with any other debit transaction. For an IAT debit that is in violation of an OFAC sanctions program, contact OFAC directly before the debit is returned. OFAC has indicated that it wants to address this issue on a case-by-case basis.

**NOTE:** Any entry that is identified as a potential hit against the SDN list must be handled as an exception item, requiring investigation and closer examination by the RDFI. Such transactions may not be automatically returned by the RDFI.

## IAT OFAC SCREENING INDICATOR

A financial institution should only use the OFAC Screening Indicators as a reference and not the final determining factor in an OFAC review. As in the wire transfer procedures, each financial institution that is party to the transaction is responsible for doing an OFAC review of the transaction. While the actual OFAC review of the transaction may be handled by a third-party, OFAC has been very clear that a financial institution may not contract away its legal liability for OFAC compliance.

Within the IAT Entry Detail Record, two fields have been identified as OFAC Screening Indicators. Field Ten is identified as the Gateway Operator OFAC Screening Indicator and Field Eleven is the

Secondary OFAC Screening Indicator. These fields are optional and may or may not be populated. The Gateway Operator OFAC Screening Indicator indicates the results of a Gateway screen for OFAC compliance. A value of “0” indicates that the Gateway has not found a potential blocked party, as identified by OFAC on the SDN list. A value of “1” indicates the potential presence of a blocked party. [Field formatting – This field must be space filled if no screening has been conducted.]

### ***Inbound IAT Transactions Coming into the U.S.***

If the IAT transactions enter the U.S. ACH through the Federal Reserve FedACH International Service, Field Ten will be populated by the Federal Reserve as the Gateway. If the IAT transaction enters the U.S. ACH through any other Gateway, the decision to populate these fields is optional. If Field Ten has been populated, its information should not be changed, even if a suspect transaction has been reviewed and cleared. If a secondary party to the transaction does another OFAC review of the file, the results of the additional review should be placed in Field Eleven.

The Secondary OFAC Screening Indicator indicates the results of a Third-Party Service Provider screen for OFAC compliance. A value of “0” indicates that the Third Party Service Provider has not found a potential blocked party, as identified by OFAC on the SDN list. A value of “1” indicates the potential presence of a blocked party. [Field formatting: This field must be space filled if no screening has been conducted].

## ACCOUNT SCREENING

The issue of screening accounts for the purpose of identifying any account-holding parties subject to blocking action is a critical one. Depository financial institutions and other enterprises with customers that make or receive financial or other trade transactions are accountable if their customers are blocked parties on the SDN List.

***OFAC makes the current SDN List available to the public on its web site <http://www.treas.gov/offices/enforcement/ofac/>.***

Some financial institutions have the capability to download this list directly into their account

systems as changes are made to the list and/or on a periodic basis to ensure that the current version is being applied to review their account base and to verify new customers. There are also several vendors that have OFAC account-level screening solutions from which a wide range of services are available. Regardless of whether an internal or a third-party option is used, the objectives are the same:

- Running existing or new account holder information against the SDN List to identify those accounts or applicants that involve the interests of a blocked party (resulting in a “hit”); and
- Reviewing information about a “hit” to establish whether the identification is valid, if necessary contacting OFAC for verification (caution: more “false” hits than “true” hits are likely, given close approximations in the names or aliases of individuals or companies on the SDN List with the names of legitimate individuals or companies); and, freezing and reporting to OFAC those accounts that are “true” hits.

## BLOCKING AND REPORTING ACH TRANSACTIONS

Procedures for Blocking and Reporting of transaction in violations of an Economic Sanctions program can be found in 31 C.F.R. Part 501 – Economic Sanctions Enforcement Guidelines.

*A copy of this document can be found on the OFAC website at <http://www.treas.gov/offices/enforcement/ofac/>.*

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### CHAPTER 4

## General Rules

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### RISK ASSESSMENTS

The *Rules* require all Participating DFIs to conduct a risk assessment of their ACH activities, and to implement risk management programs based on the results of such assessments, in accordance with the requirements of their regulator(s).

Generally, regulators stress the importance of 1) assessing the nature of risks associated with ACH activity; 2) performing appropriate know-your-customer due diligence; 3) establishing controls for Originators, third-parties, and direct-access to ACH Operator relationships; and 4) having adequate management, information and reporting systems to monitor and mitigate risk.

The following list includes examples of recent risk-management requirements and guidance by regulators:

- OCC Bulletin 2006-39, Automated Clearing House Activities, September 1, 2006 (see <http://www.occ.treas.gov/ftp/bulletin/2006-39.pdf>);
- FFIEC’s BSA/AML Examination Manual, 2007 edition (see [http://www.ffiec.gov/bsa\\_aml\\_infobase/documents/BSA\\_AML\\_Man\\_2007.pdf](http://www.ffiec.gov/bsa_aml_infobase/documents/BSA_AML_Man_2007.pdf), pages 199 through 205);
- OCC Bulletin 2008-12, Payment Processors, April 24, 2008 (see <http://www.occ.treas.gov/ftp/bulletin/2008-12.html>);
- FDIC Financial Institution Letter 127-2008, Payment Processor Relationships, November 7, 2008 (see <http://www.fdic.gov/news/news/financial/2008/fil08127.html>);
- FFIEC Guidance on Risk Management of Remote Deposit Capture, January 14, 2009 (see [http://www.ffiec.gov/pdf/pr011409\\_rdc\\_guidance.pdf](http://www.ffiec.gov/pdf/pr011409_rdc_guidance.pdf)).

### RECORDS AND RECORD RETENTION

The *NACHA Operating Rules* permit ACH participants to retain ACH records electronically as an alternative to retaining such documents in hard copy format. Specifically, the *Rules* allow any record, including any agreement, authorization, or Written Statement of Unauthorized Debit, required to be in writing by the *NACHA Operating Rules* to be created and retained in either hard copy or electronic form. The electronic record must (1) accurately reflect information contained within the record, and (2) be capable of being accurately reproduced for later reference, whether by transmission, printing, or otherwise.

### ***Electronic Signatures and Records***

Electronic records include agreements, authorizations, Written Statements of Unauthorized Debit, or other records created, generated, transmitted, communicated, received, or stored by electronic means. Electronic records may have a signature requirement.

Electronic signatures are electronic sounds, symbols, or processes attached to or logically associated with an agreement, authorization, Written Statement of Unauthorized Debit, or other record executed or adopted by a person with the intent to sign the record. The writing and signature requirements contained in the *NACHA Operating Rules* can be satisfied by compliance with the Electronic Signatures and Global National Commerce Act (E-Sign Act), including the provisions that reference state versions of the Uniform Electronic Transactions Act.

To satisfy the requirements of the *NACHA Operating Rules* (and Regulation E for preauthorized debits), electronic signatures must “similarly authenticate” the electronic records. The authentication method chosen must evidence both the signer’s identity and his assent to the terms of the record. For purposes of the *NACHA Operating Rules*, ACH records may also be similarly authenticated using the same authentication methods currently prescribed for consumer debit authorizations — that is, the record may be similarly authenticated via the Internet through the use of a digital signature, PIN, password, shared secret, etc., or a hard copy record may be authenticated via the telephone by recording the consumer’s speaking or key-entering a code identifying the signer.

Any other written notice or disclosure required by the *NACHA Operating Rules* but not requiring a signature may also be provided in electronic form, including e-mail. (Please note that state and Federal laws may require consumer consent before using electronic notices/disclosures.)

### ***Record Retention***

ACH participants are permitted to retain copies of ACH records in electronic form. Those participants using electronic methods to retain ACH records should implement practices and procedures to ensure that electronic records of ACH documents

accurately reflect the information contained within the document and that both the electronic record and a record of the authentication can be accurately reproduced for future reference.

ACH participants should be aware that other ACH participants may also utilize electronic methods to obtain and retain records of ACH documents. In such cases, the participants can expect to receive electronic versions, rather than hard copies, of documents that they request from other ACH participants.

### **EXCUSED DELAY**

The *NACHA Operating Rules* provisions regarding excused delay help clarify circumstances in which a processing delay by a Participating DFI or an ACH Operator would be excused. The *Rules* permit a Participating DFI or ACH Operator to delay performance of its obligations under the *Rules* beyond required time limits if:

1. the delay was caused by the interruption of communication or computer facilities; and
2. the delay was beyond the reasonable control of the Participating DFI or ACH Operator seeking the excused delay.

Delay by an ACH Operator beyond the time limits prescribed or permitted by the *Rules* also is excused to the extent the delay was caused by the interruption or the suspension of payment by, or unavailability of funds from, a Participating DFI or another ACH Operator.

Whether a delay is beyond the reasonable control of the party asserting an excused delay must be determined based on the available facts and circumstances surrounding the delay, including whether the Participating DFI or ACH Operator exercised the level of diligence required under such circumstances. A delay caused, in whole or in part, by the default, misconduct or negligence of a Participating DFI or ACH Operator, including the failure to maintain or implement an appropriate disaster recovery and business continuity plan, is not excused under the *Rules* for that Participating DFI or ACH Operator.



A delay that is excused will continue to be excused until either the cause of the delay has been eliminated or should have been eliminated (if the affected Participating DFI or ACH Operator had exercised the level of diligence required under the circumstances), whichever is earlier.

A Participating DFI or ACH Operator asserting an excuse from any delay under the *Rules* should, as promptly as possible after discovery, notify other ACH participants of the delay and its reliance on the *Rules* to excuse such delay. The notice may be given directly to affected ACH participants, through membership organizations such as Regional Payment Associations, through an ACH Operator if the ACH Operator agrees to distribute such notice, or through other methods reasonably designed to notify the affected ACH participants.

If an ACH participant affected by a delay wishes to challenge whether a Participating DFI or ACH Operator has properly claimed an excused delay, the participant may do so using the National System of Fines, as with any other alleged rules violation. The party asserting the excused delay bears the burden of proving that the delay is properly excused. NACHA may consider all available facts and circumstances in making a determination, including:

1. the cause of the delay;
2. the applicable provisions of the disaster recovery and business continuity plan that were intended to prevent and/or mitigate the delay, including whether the event causing the delay was reasonably foreseeable and whether the disaster recovery and business continuity plans were properly implemented; and
3. the actions being taken to remedy the situation.

Operational outages due to the general failure or interruption of communication or computer facilities or other equipment do not constitute an excused delay for a Participating DFI, its Third-Party Service Provider, or an ACH Operator. DFIs and ACH Operators must expect that computer problems will occur and make contingency plans to handle such situations. In this regard, the section

of the *NACHA Operating Rules* governing excused delay is consistent with general guidance from the Federal Financial Institutions Examination Council (FFIEC) regarding contingency backups, which states that “All computer installations must make formal arrangements for alternative processing capability . . .”

Financial institutions and ACH Operators should have back-up systems in place to protect against delays caused by computer failure. However, the failure of a DFI's or ACH Operator's systems due to circumstances beyond their control may still constitute an excused delay.

## ACH DATA SECURITY REQUIREMENTS

For all ACH transactions that involve the exchange or transmission of banking information (which includes, but is not limited to, an entry, entry data, a routing number, an account number, and a PIN or other identification symbol) via an Unsecured Electronic Network, the *NACHA Operating Rules* require that such banking information be either:

1. encrypted using a commercially reasonable security technology that, at a minimum, is equivalent to 128-bit RC4 encryption technology, or
2. transmitted via a secure session that utilizes a commercially reasonable security technology that provides a level of security that, at a minimum, is equivalent to 128-bit RC4 encryption technology.

For purposes of the *NACHA Operating Rules* and the ACH Network, an Unsecured Electronic Network is a network, public or private, that:

1. is not located entirely within a single, contiguous, physical facility; and
2. either (a) transmits data via circuits that are not dedicated to communication between two end-points for the duration of the communication, or (b) transmits data via wireless technology (excluding a communication that begins and ends with a wireline connection, but that is routed by a telecommunications provider for a portion of the connection over a wireless system).

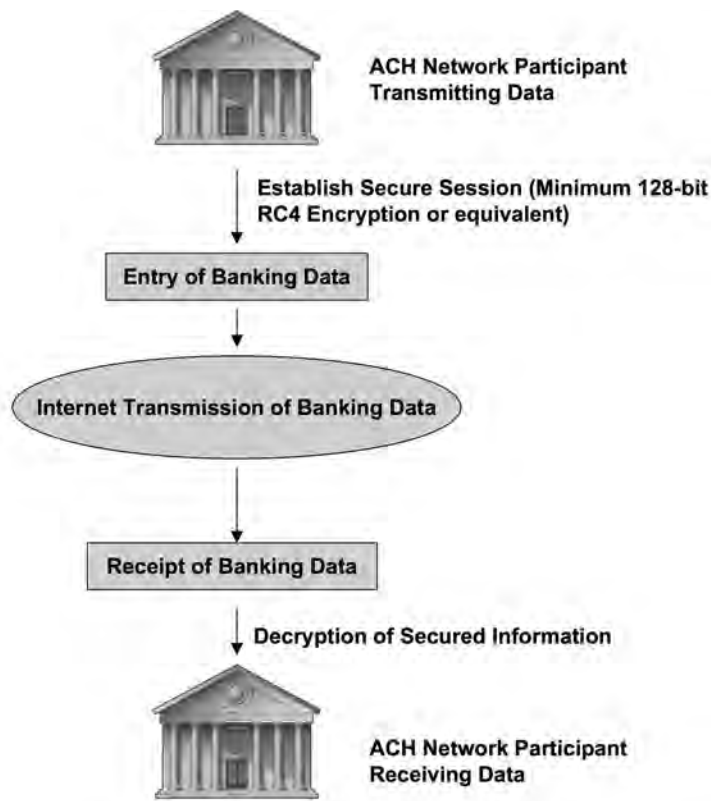


FIGURE 4-1

For clarity, the Internet is an Unsecured Electronic Network, even though secure transmissions may be made over that otherwise unsecured network.

A secure Internet session is one that is typically indicated by the secure access symbol on the bottom menu bar of the browser (e.g., a padlock). For security purposes, a secure Internet session will generally expire after a certain period of inactivity, at which time the user will be required to reenter the login credentials initially used to enter the secure Internet session. Currently, 128-bit RC4 encryption technology is the standard for financial transactions and is considered commercially reasonable. If technological advancements drive the commercially reasonable standard to change, Originators should comply with the new standard.

Figure 4-1 above depicts the concept of a secure Internet session.

These encryption requirements must be employed prior to the key-entry and through the transmission

of any banking information exchanged over such an Unsecured Electronic Network between:

1. an Originator and a Receiver;
2. an Originator and an ODFI;
3. an ODFI and an ACH Operator;
4. an ACH Operator and an RDFI; and
5. an Originator, ODFI, RDFI, or ACH Operator and a Third-Party Service Provider.

Transmissions of banking information over an Unsecured Electronic Network by means of voice or keypad inputs from a wireline or wireless telephone to a live operator or voice response unit are not subject to this data security requirement. An application in which the Originator obtains information from the Receiver by another means (such as the telephone) and then key enters the information via the Internet is, for example, subject

to these data security requirements. However, information delivered via telephone line, such as a leased line, or dialed into a financial institution's modem pool is not subject to this requirement.

The *NACHA Operating Rules* also require ODFIs to utilize commercially reasonable methods to establish the identity of each Originator or Third-Party Sender that uses an Unsecured Electronic Network, such as the Internet, to enter into a contractual relationship with the ODFI for the origination of ACH transactions. Such a requirement helps to ensure that ODFIs employ measures to know the Originators or Third-Party Senders with whom they establish relationships over Unsecured Electronic Networks and to verify those Originators'/Third-Party Senders' identities.

### **COMMERCIALLY REASONABLE STANDARD**

A commercially reasonable system, technology, practice, or procedure is one that corresponds to commonly-accepted commercial practices among commonly situated parties conducting similar types of transactions. The concept of commercial reasonableness means that a party, given the facts of a specific transaction, acted in a way that other similar parties would have acted. Whether a party has fulfilled its obligations to perform in a commercially reasonable manner is determined based on an evaluation of the circumstances.

Accordingly, what constitutes a commercially reasonable system, technology, practice or procedure may change over time. For example, as new technology becomes available or costs of certain technologies or procedures decrease, new standards of commercial reasonableness may evolve. Therefore, ACH participants need to work together to ensure continued compliance. The person challenging the use of a particular system, technology, practice or procedure has the burden of establishing that the system, technology, practice or procedure employed by a particular party was not commercially reasonable.

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## **SECTION II**

# **Originating Depository Financial Institutions**

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### **PART TWO RIGHTS AND RESPONSIBILITIES OF ORIGINATORS**

An Originator initiates entries into the Automated Clearing House Network through a relationship with an Originating Depository Financial Institution (ODFI) or a Third-Party Sender. The ACH Network enables an Originator to prepare a batch of debit and/or credit entries to transfer funds via the ACH from or to Receivers' accounts.

***Third-Party Senders are discussed in Chapter 21 of these Guidelines.***

Examples of Originators are:

- An employer offering its employees direct deposit of payroll or an organization (company, financial institution) offering direct deposit of funds (interest, dividends, retirement funds, etc.).
- A company or billing firm that offers direct payment (debits) to those consumers that owe a recurring or one time obligation.
- An organization that consolidates or disburses funds from or to its subsidiaries or branches.
- A corporate entity that enters into a trading partner agreement with a corporate receiver for

the purpose of transferring funds according to that agreement.

- A merchant or financial institution that offers point of sale activity to consumers.
- An individual that initiates an entry via a bill payment service to a company for monies owed.
- A company converting to electronic payments business or consumer checks received via the U.S. Mail or at a dropbox location.
- A company converting eligible checks presented for payment at the point of purchase to electronic payments.
- A company electronically re-presenting checks that have been returned for insufficient or uncollected funds.

The primary participant relationships for the Originator are with the Receiver and the ODFI or Third-Party Sender. The Originator's relationship with the ODFI and the Receiver involves both legal responsibilities and processing issues. The secondary relationship for the Originator is with its Third-Party Service Provider.

## ACH DATA SECURITY

The *NACHA Operating Rules* impose specific data security requirements for all ACH transactions that involve the exchange or transmission of banking information (which includes, but is not limited to, an entry, entry data, a routing number, an account number, and a PIN or other identification symbol) via an Unsecured Electronic Network. Originators must abide by these requirements.

***ACH data security requirements are discussed in detail in Chapter 4 of these Guidelines.***

## ELECTRONIC RECORDS AND RECORD RETENTION

The *NACHA Operating Rules* permit ACH participants to retain ACH records electronically as an alternative to retaining such documents in hard copy format. Specifically, the *Rules* allow any record, including any agreement, authorization, or Written Statement of Unauthorized Debit, required to be in writing by the *NACHA Operating Rules* to be created and retained in either hard copy or electronic form. The electronic record must (1) accurately reflect information contained within the record, and (2) be capable of being accurately reproduced for later reference, whether by transmission, printing, or otherwise.

Electronic records and record retention are addressed in Chapter 4 of these *Guidelines*.

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## CHAPTER 15

### Relationship with ODFI

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## AGREEMENT WITH ODFI AND USE OF THIRD-PARTY SENDERS

Each Originator must execute an agreement with the ODFI or Third-Party Sender before the ODFI originates entries on its behalf.<sup>1</sup> This origination agreement defines the parameters of the relationship between the two parties. At a minimum the Origination Agreement must:

1. bind the Originator to the *Rules*;
2. provide the Originator's authorization for the ODFI to originate entries on behalf of the Originator to the Receiver's accounts;
3. provide for the Originator's agreement not to originate entries that violate the laws of the United States;

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<sup>1</sup> The NACHA Operating Rules do not require an ODFI/Originator agreement for Customer Initiated Entries (CIE). For more information on CIE, refer to Chapter 40 of these Guidelines.

4. include any restrictions on the types of entries that may be originated;
5. include the right of the ODFI to terminate or suspend the agreement upon no more than ten Banking Days' notice for the Originator's breach of the *Rules*; and
6. provide for the right of the ODFI to audit the Originator's compliance with the origination agreement and the *Rules*.

When a Third-Party Sender acts as an intermediary between the Originator and the ODFI for the origination of ACH transactions, the ODFI and Third-Party Sender must enter into an origination agreement that, among other things, obligates the Third-Party Sender (i) to comply with the *NACHA Operating Rules* and (ii) to enter into an agreement with the Originator that includes at least the same provisions required by the origination agreement between the Originator and the ODFI; and (iii) to annually conduct an audit of its compliance with the *Rules*.

The agreements between the Originator and an ODFI or Third-Party Sender also should identify processing requirements for the specific applications, and establish liability and accountability for certain procedures related to the applications. In some instances, provisions of the agreement may be superseded by applicable federal or state law (e.g., Uniform Commercial Code Article 4A or the Electronic Fund Transfer Act).

***Please see Appendix C of these Guidelines for a list of issues that the Originator and its ODFI may specifically define in their origination agreement.***

Originators must be aware that they are subject to applicable U.S. law when initiating ACH Entries. This includes, among other things, that the Originator is not violating the Office of Foreign Assets Control (OFAC)-enforced sanctions, and is not acting on behalf of, or transmitting funds to or from, any party subject to such sanctions. (For additional information about OFAC requirements as they relate to Originators, refer to the discussion on Processing Requirements and Responsibilities –

Relationship With ODFI in this section. Detailed information on OFAC compliance can be found in Section I of these *Guidelines*.)

Originators should interface with their ODFIs via a secured telecommunications link for all ACH-related activity. This includes the origination and/or receipt of all current ACH entries and related reports and any future related applications.

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## CHAPTER 16

### **Relationship with Receiver and Authorization Requirements**

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The type of authorization arrangement entered into between the Receiver and the Originator depends upon the type of application that is being initiated. Corporate applications, where the Originator and Receiver have entered into a trading partner agreement, could require more intricate terms than consumer applications. For example, the corporate application could include the processing of payment related data or may be used to transfer large dollar amounts.

#### **MINIMUM AUTHORIZATION REQUIREMENTS/PROPER USE OF STANDARD ENTRY CLASS CODE**

The authorization requirements specified within the *Rules* address the minimum requirements needed for authorization of various types of ACH entries. The *Rules* permit ACH participants to obtain authorization in a manner that exceeds the minimum requirements, provided that all other requirements for that particular type of entry are met. As an example, the rule provisions related to certain types of electronic check transactions (e.g. ARC and BOC) provide that Originators may obtain authorization by notice to the Receiver. In such cases, Originators may also obtain a signed, written authorization, provided that all other requirements for the type of entry are met. Originators will need to consider the impact of other requirements on any change in the manner of authorization chosen for a particular type of payment to ensure that they are also compliant with those requirements.



For instance, although written authorization is permissible for BOC Entries, notice would still be required to comply with Regulation E.

When the *Rules* specify requirements for entries to be authorized in a particular way, the *Rules* also specify the minimum requirements that Originators must follow for each entry initiated in that particular manner. The *Rules* explicitly require the use of the appropriate Standard Entry Class Code for such entries. For instance, an Originator that wishes to convert a check received at the point of purchase to an ACH debit during back office processing may only use the BOC Standard Entry Class Code and must comply with the *Rules* related to such entries. No other Standard Entry Class Code may be used for such purposes.

## CONSUMER RECEIVERS

In general, the Originator must obtain the Receiver's authorization to initiate entries through the ACH Network to the Receiver's account. The authorization must (1) be readily identifiable as an ACH authorization; (2) have clear and readily understandable terms; and (3) provide that the Receiver may revoke the authorization only by notifying the Originator in the manner specified in the authorization.

Originators of entries to consumer accounts must meet the following authorization requirements:

- Account numbers and routing numbers must be accurately stated.

Originators may use the on-us field of the MICR line of a check to obtain the account number for ACH entries. Originators must ensure that the correct Receiver's account number is contained in each ACH entry. Originators are strongly encouraged to establish practices and procedures to ensure the validity and accuracy of each Receiver's account number for all entries transmitted into the ACH Network.

Originators should also look on the face of a check for the routing information. Some financial institutions may print the routing number and account number used for ACH purposes on the face of the document, if the information on the

MICR line is not appropriate for ACH activity. In addition, some financial institutions may provide their customers with another source document that indicates the routing and account number to be used for ACH entries.

In an effort to help ensure the proper routing and processing of ACH Entries, Originators should consider implementing practices and procedures that will enable them to verify the accuracy of routing numbers prior to the transmission of entries into the ACH Network. Originators must be aware that, in certain circumstances, such as with TEL entries and WEB entries, the *NACHA Operating Rules* specifically require an Originator to establish commercially reasonable procedures to verify that routing numbers are valid.

- The authorization should indicate whether it relates to entries directed to a demand deposit account, a savings account, a loan account or a general ledger account. (Note: NOW accounts and sharedraft accounts are transaction accounts within the broad category of demand accounts.)
- The Originator must obtain authorization for both consumer credit and debit entries. However, when both the Originator and Receiver are natural persons, Receiver authorization is not required for credit entries. This is an exception to the credit authorization requirement.

### ***Authorization for Credit Entries***

Consumers may provide authorizations for credit entries in writing, or they may be provided orally or by other non-written means. As noted above, if both the Originator and Receiver are natural persons, no Receiver authorization is required.

### ***Authorization for Debit Entries***

All debits to consumer accounts must be authorized by the consumer via a writing that is signed or similarly authenticated by the consumer, with the exception of ARC, BOC, and RCK entries. The authorization requirements for ARC, BOC, RCK, and TEL entries to consumer accounts are discussed separately below.

Originators of debit entries to consumer accounts must comply with the following criteria to ensure proper authorization of consumer debits under the *NACHA Operating Rules*:

- *Copy of Authorization* – With the exception of ARC, BOC, and RCK entries, the Originator must obtain the consumer's written authorization. This authorization may be sent to the consumer by mail, fax, or Internet/on-line network, or it may be provided to the consumer in person. In circumstances where the consumer signs the written authorization or, alternatively, uses the telephone to similarly authenticate the written authorization by speaking or key entering a code identifying himself, the consumer has a paper authorization in his possession, which he should retain as his copy of the authorization. The consumer can also request an additional hard copy of the authorization from the Originator. For the Internet/on-line network alternative, the consumer reads the authorization that is displayed on the computer screen or other visual display. The consumer should print the authorization from his computer screen and retain this copy. The Originator must be able to provide the consumer with a hard copy of a debit authorization if requested to do so.

For ARC entries for an in-person bill payment at a manned location and for BOC entries, the Originator must provide a copy of the notice or substantially similar language to the Receiver at the time of the transaction.

For POP entries, the Originator must obtain the Receiver's written authorization, as discussed above, and must also provide the Receiver with notice at the point of purchase or manned bill payment location.

***Please refer to Chapters 37, 38, and 44 on ARC, BOC and POP entries, respectively, for specific notice requirements.***

For TEL entries, the consumer's authorization may be obtained orally via the telephone for debits where there is (1) an existing relationship between the Originator and the consumer, or (2) no existing relationship between the Originator

and the consumer, but the consumer has initiated the telephone call to the Originator. For a Single Entry TEL, the Originator must either make an audio recording of the consumer's oral authorization **or** provide the Receiver with written notice confirming the oral authorization prior to the Settlement Date of the entry. For a recurring TEL entry, the Originator must make an audio recording of the consumer's oral authorization **and** provide the Receiver with a written copy of the authorization prior to the Settlement Date of the first entry. The Originator must provide the ODFI with the original, copy, or other accurate record of the Receiver's authorization in such time and manner as to enable the ODFI to deliver the authorization to the RDFI within ten banking days of the RDFI's request.

For ARC, BOC, and RCK entries, authorization consists of notice from the Originator to the consumer and the receipt of the consumer's source document (for ARC and BOC entries) or item (for RCK entries) by the Originator.

***Please refer to the chapters on ARC, BOC, and RCK entries for specific notice requirements.***

For a Return Fee Entry – that is, a debit entry to a consumer's account for the purpose of collecting a Return Fee – the Originator must obtain the Receiver's authorization prior to initiating the Return Fee Entry. This can be accomplished in either of two ways:

- (1) *Authorization by Notice* – Originators may obtain authorization for a Return Fee Entry by providing the Receiver/check writer with notice that conforms to the requirements of Regulation E at the time that the underlying ACH debit is authorized or the underlying check is accepted. Please refer to the chapter on Return Fee Entries for specific notice requirements.
- (2) *Authorization other than by Notice* – Originators may also obtain authorization for a Return Fee Entry in any other form permitted by the *Rules*, dependent upon



the Standard Entry Class Code used for the debit Entry to a Consumer Account (e.g., written authorization for PPD or WEB, oral authorization for TEL).

***Please refer to Chapter 54 for more detailed information on authorization and specific notice requirements for Return Fee Entries.***

- *Minimum Information Requirements* – For all entries, the authorization must be readily identifiable as an ACH debit authorization and its terms must be clear and readily understandable. With the exception of POP, the writing must specify that the Receiver may revoke the authorization only by notifying the Originator in the manner specified on the authorization form.
- For Single Entry TEL entries, the following minimum information must be included as part of the authorization:
  - the date on or after which the ACH debit to the Receiver's account will occur;
  - the amount of the transaction, or a reference to the method of determining the amount of the transaction;
  - the Receiver's name or identity;
  - the account to be debited;
  - a telephone number for Receiver inquiries that is answered during normal business hours;
  - the manner in which the Receiver can revoke the authorization;
  - the date of the Receiver's oral authorization; and
  - a statement by the Originator that the authorization obtained from the Receiver is for a Single-Entry ACH debit, a one-time electronic funds transfer, or other similar reference.
- For recurring TEL entries, the following

minimum information must be included as part of the authorization:

- the amount of the recurring transactions or a reference to the method of determining the amounts of recurring transactions;
  - the timing (including the start date), number and/or frequency of the electronic fund transfer, or other similar reference, to the consumer's account;
  - the Receiver's name or identity;
  - the account to be debited;
  - a telephone number for Receiver inquiries that is answered during normal business hours;
  - the manner in which the Receiver can revoke the authorization; and
  - the date of the Receiver's oral authorization.
- *Authentication of Authorization* – With the exception of ARC, BOC, RCK, and Return Fee Entries entries, the authorization must be signed or similarly authenticated by the consumer.

#### *Similarly Authenticated*

The similarly authenticated standard permits signed, written authorizations to be provided electronically. These writing and signature requirements are satisfied by compliance with the Electronic Signatures in Global and National Commerce Act (15 U.S.C. 7001 et seq.).

To satisfy the requirements of Regulation E and the *NACHA Operating Rules*, the authentication method chosen must evidence both the consumer's identity and his assent to the authorization.

Examples of methods used to similarly authenticate an authorization include, but are not limited to, the use of digital signatures, codes, shared secrets, PINs, etc. Authentication of an authorization is strongest when the authorization and the authentication of that authorization occur simultaneously or nearly simultaneously. Although an initial website session log-in may constitute adequate authentication for

a click-through authorization as part of the same session, Originators and ODFIs should consider the strength of the association of an initial log-in with a later authorization. The Originator and ODFI bear the burden of demonstrating that the authentication process is sufficiently linked to the authorization.

***Appendix H of these Guidelines outlines acceptable alternatives for authenticating the consumer's authorization.***

#### *Retention of Authorization*

The Originator must retain an original or copy of a written authorization, and readily and accurately reproducible records evidencing any other form of authorization. The record of authorization must be retained by the Originator for a period of two years following the termination or revocation of the authorization. The authorization may be retained as an electronic record that (1) accurately reflects the information in the record, and (2) is capable of being accurately reproduced for later reference, whether by transmission, printing, or otherwise.

#### *Multiple, Non-Recurring Debits*

Multiple but non-recurring debits are debits in which the amount and time frame for the initiation of the debits may vary. Examples of this type of debit include occasional catalog purchases from the same merchant or occasional purchases of securities with a broker. Originators do not need to obtain a written authorization for each individual debit entry. However, they must have obtained a written authorization up front that establishes a relationship between the Originator and consumer Receiver for this particular type of activity and to which all such entries would apply.

#### *Notice of Change in Amount/Change in Debiting Date for Recurring Debits to Consumer Accounts*

When the amount of a recurring debit to a consumer account varies, specific requirements apply. If a preauthorized debit transfer varies from the immediately preceding transfer relating to the same authorization or from a fixed preauthorized amount, the Originator must send the Receiver written notification of the amount and the date on or after which of the transfer will be debited

at least ten calendar days before the scheduled transfer date. Additionally, if the Originator informs the consumer of the right to receive notice of all varying transfers, the consumer may elect to receive notice only when a transfer does not fall within a specified range of amounts. Alternatively, the consumer may elect to receive notice only when a transfer differs from the most recent transfer by more than an agreed upon amount.

If the Originator changes the date on or after which a recurring debit entry to a consumer account is scheduled to be debited, the Originator must send the Receiver written notification of the new date. The Originator must send the notice at least seven (7) calendar days before the first entry to be affected by the change is scheduled to be debited to the Receiver's account.

#### *Copy of Authorization*

The Originator, upon request of the ODFI, must present the original, copy or other accurate record of the customer's authorization to an ODFI for its use or use by the RDFI. The RDFI should not ask for the customer authorization as a normal course of business but only if an exception is expected or has occurred.

#### *Data Passing*

The Restore Online Shoppers' Confidence Act prohibits a merchant from initiating an Internet transaction unless the merchant has obtained certain authorization information, including account number and consumer's name and address, directly from the consumer. This law also prohibits a merchant from disclosing a customer's account number and other billing information to another merchant for use in an Internet-based sale.

Effective March 15, 2013, the *NACHA Operating Rules* will be modified to protect customers from such potentially confusing practices. NACHA will adopt a rule that is similar to those currently in effect in major card brand rules. This rule will be broader in scope than the requirements of The Restore Online Shoppers' Confidence Act in that it is not limited to Internet transactions.

The *Rules* will be revised to 1) prohibit an ODFI from disclosing a consumer Receiver's account number or routing number to any third party for

use in initiating a debit Entry that is not part of the original authorization; and 2) require the ODFI to ensure that the Originator and any Third-Party Service Provider do not disclose such information for use in initiating a debit Entry that is not part of the original authorization.

## **CORPORATE RECEIVERS**

### ***Agreements/Authorizations for Corporate Transactions***

As with consumer entries, the business Receiver must authorize all ACH credits and debits to its account. An Originator must enter an agreement with each business Receiver of entries (other than ARC, BOC and POP Entries to non-consumer accounts) under which the Receiver has agreed to be bound by the *NACHA Operating Rules*. The nature of the agreement for corporate transactions can vary depending upon the complexity of the application and the relationship between the Originator and the Receiver. The Originator that is collecting or disbursing funds to its own subsidiaries, for example, may require an entirely different agreement for the funds transfer than it would if it were entering into a trading partner agreement with another corporation.

With respect to ARC and BOC entries, authorization consists of notice from the Originator to the business Receiver and the receipt of the business' Eligible Source Document. For POP entries, authorization is comprised of both the Receiver's written authorization and notice regarding the check conversion policy provided to the Receiver by the Originator at the point of purchase or manned bill payment location.

***Specific information on authorization and notice requirements for ARC, BOC, and POP entries can be found in Chapters 37, 38 and 44, respectively, of these Guidelines.***

As with other entries, a Return Fee Entry to a non-Consumer account must be authorized by the Receiver. For a Return Fee related to an ARC, BOC or POP Entry, the Originator may obtain the Receiver's authorization by providing the Receiver/check writer with notice that conforms to the requirements of Regulation E at the time that the underlying ACH debit is authorized or

the underlying check is accepted. Any notice meeting the form, process, and content permissible under Regulation E satisfies this authorization requirement, even though the account to be debited is a non-Consumer account.

***Please see chapter 54 on Return Fees for specific authorization and notice requirements.***

### ***Remittance Information/Non-Monetary Entries***

The nature of the agreement between the Originator and Receiver will include additional terms if the application includes the processing of payment-related data along with the payment.

Non-Monetary Entries are entries that carry no settlement value but do include payment-related remittance data. Examples of Non-Monetary Entries include CTX and CCD entries that carry remittance information indicating a credit position of the Originator to the Receiver or relating to a period of time during which no funds are owed by the Originator to the Receiver. Originators must ensure that corporate trading partner agreements include provisions for remittance data to be sent via the ACH Network for either live dollar or Non-Monetary Entries.

### ***Corporate Debits***

Originators of corporate debits to Receivers other than their own subsidiaries need to be aware of the sensitivity of this application. Many corporate Receivers are reluctant to allow debit activity to their accounts; therefore, it is imperative that the agreement that supports this type of activity is complete and accurate. Originators may be required to provide some proof that debit activity was, in fact, authorized if a transaction is questioned by the Receiver.

## **ORIGINATING ACH ENTRIES**

Originators that use the various ACH applications must be sure to comply with the requirements associated with the particular application. Each entry type has specific conditions that must be met in order for the entry to be considered properly authorized.

### ***Originating ARC Entries***

When originating an ARC Entry, an Originator must:

- Prior to accepting each check, provide the Receiver with a conspicuous notice that has clear and readily understandable terms;
- Provide a copy of the notice, or language that is substantially similar, to the Receiver at the time of the transaction when the source document for the ARC Entry is provided by the Receiver in-person for payment of a bill at a manned location;
- Obtain an eligible source document (i.e., a check) via the U.S. mail, dropbox, delivery service or in person for payment of a bill at a manned location;
- Use a reading device to capture MICR information;
- Retain a copy of the front of the Eligible Source Document for 2 years, and provide it to the ODFI upon request; and
- Securely store the Eligible Source Document until destroyed.

### ***Originating BOC Entries***

When originating a BOC Entry, an Originator must:

- Provide the Receiver with a conspicuous notice that has clear and readily understandable terms;
- Provide a copy of the notice or substantially similar language to the Receiver at the time of the transaction;
- Obtain an Eligible Source Document at the point of the in-person transaction;
- Verify the identity of the Receiver;
- Use a reading device to capture MICR information;

- Retain a copy of the front of the Eligible Source Document for 2 years, and provide it to the ODFI upon request;
- Securely store the Eligible Source Document until destroyed; and
- Maintain a telephone number for customer inquiries.

### ***Originating CCD Entries***

When originating a CCD Entry to a non-consumer account, an Originator must:

- Obtain the corporate Receiver's authorization to originate entries to the Receiver's account and
- Obtain the corporate Receiver's agreement to be bound by the *NACHA Operating Rules*.

### ***Originating a POP Entry***

When originating a POP Entry, an Originator must:

- Provide the Receiver with a conspicuous notice that has clear and readily understandable terms;
- Obtain an Eligible Source Document at the point of the in-person transaction;
- Use a reading device to capture MICR information;
- Void the Eligible Source Document and return it to the Receiver;
- Obtain a written, signed authorization; and
- Provide a copy of the notice at the time of the transaction.

### ***Originating PPD Entries***

When originating a PPD debit Entry to a consumer account, an Originator must:

- Provide the Receiver with a written authorization that is readily identifiable as an ACH debit authorization and contains clear and readily understandable terms.

- Obtain the Receiver's agreement to the terms of the authorization via his signature or electronic signature equivalent (i.e., the authorization must be similarly authenticated).
- Obtain the Receiver's authorization for a Return Fee Entry originated using the PPD Standard Entry Class Code by either (1) obtaining the Receiver's written authorization, or (2) providing the Receiver with the required notice.

***For detailed information on Return Fee Entries and authorization requirements, please refer to Chapter 54 within the Special Topics section of these Guidelines.***

When originating a PPD credit Entry to a consumer account, an Originator must:

- Obtain an authorization from the Receiver that is readily identifiable as an authorization and has clear and readily understandable terms. Authorization for a PPD credit entry is not required to be in writing.

### ***Originating RCK Entries***

When originating an RCK Entry to a consumer account, an Originator must:

- Agree with its ODFI that any restrictive endorsement made by the Originator or its agent on the item to which the RCK Entry relates is void or ineffective upon initiation of the RCK Entry.
- Provide the Receiver with a conspicuous notice that has clear and readily understandable terms.
- Use an eligible item.
- Retain a copy of the front and back of the eligible item for 7 years, and provide it to the ODFI upon request. If the item has been paid, the copy provided to the ODFI must be so marked.
- Not reinitiate an RCK entry more than one time within 180 days of the Settlement Date of the original entry, provided that the item to which the RCK relates has been presented no more than one time through the check collection system, and one time as an RCK entry.

### ***Originating TEL Entries***

When originating a TEL Entry to a consumer account, an Originator must:

- Obtain oral authorization from the Receiver via the telephone. The authorization must be readily identifiable as an authorization and must have clear and readily understandable terms.
- Provide the required minimum information as part of the authorization.
- For Single-Entry TEL entries, make an audio recording of the oral authorization, or provide the Receiver with written confirmation of the oral authorization prior to the Settlement Date of the entry. The Originator must also retain a reproducible copy of the recording or written confirmation of the authorization for 2 years from the date of the authorization.
- For recurring TEL entries, make an audio recording of the oral authorization, and provide the Receiver with a written copy of the authorization prior to the Settlement Date of the first entry. The Originator must also retain for 2 years from termination or revocation of the authorization (1) the original or a duplicate audio recording of the oral authorization and (2) evidence that a copy of the authorization was provided to the Receiver.
- Verify the identity of the Receiver.
- Verify that the routing number is valid.

### ***Originating WEB Entries***

When originating a WEB/Mobile Entry to a consumer account, an Originator must:

- Obtain written authorization from the Receiver (1) via the Internet or a wireless network; or (2) in any manner permissible under the *Rules*, if the Receiver's instruction for the initiation of the debit entry is designed by the Originator to be communicated, other than by an oral communication, via a wireless network.
- Use a fraudulent transaction detection system to screen each WEB Entry.



- Verify the Receiver's identity.
- Verify that the routing number is valid.
- Conduct annually an audit of data security practices for Receivers' financial information.

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## CHAPTER 17

### Initiation of Forward Entries

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#### PROCESSING REQUIREMENTS

##### ***Account Types and Transaction Codes***

The *NACHA Operating Rules* permit Originators to transmit ACH credit and debit entries to demand accounts (i.e., checking, NOW, and sharedraft accounts) and savings accounts at an RDFI. The *Rules* also permit Originators to transmit both credit and debit entries to financial institutions' general ledger accounts and to transmit credit entries only (with the exception of reversals to correct erroneous credit entries) to loan accounts. Transaction Codes are used to define the type of entry and the type of account to which the entry is transmitted.

***Please refer to Appendix Three of the NACHA Operating Rules for a complete list of Transaction Codes.***

##### ***Company Name Identification***

To ensure clear identification of the source of an ACH transaction, the *Rules* contain specific requirements with respect to how an Originator must identify itself within an ACH record. The *Rules* specifically require the Originator to populate the Company Name Field with the name by which it is known to and readily recognized by the Receiver of the entry. This name could, for example, be the Originator's "doing business as" name or "trading as" name. The inclusion of a readily recognizable Originator name ensures that the Receiver is able to identify a transaction appearing on his periodic statement. The clear identification of the Originator of an ACH transaction also improves overall network quality by reducing the number of unrecognized entries requiring investigation and return by the RDFI.

The *Rules* also define specific content requirements for the Company Name Field for transactions in which the party initiating the payment is not the ultimate payee or payor of a transaction -- that is, where a third party is involved in the origination of the payment. Specifically, for any ACH debit transaction in which the party transmitting the entry into the ACH Network is not the payee of the transaction (which is defined as the party to which payment is ultimately being directed), the Company Name Field must contain the name by which the payee is known and readily recognized by the Receiver. For any ACH credit transaction in which the party initiating the entry into the ACH Network is not the payor of the transaction (which is defined as the party from which payment is ultimately being directed), the Company Name Field must contain the name by which the payor is known and readily recognized by the Receiver. This requirement is consistent with Regulation E, which requires an RDFI to provide the name of any third party to or from whom funds were transferred on the consumer's periodic statement.

The following scenarios provide examples of how the Company Name Field is to be used in a variety of payment models.

##### ***Example #1***

SmartPay, Inc., provides a variety of payment processing services on behalf of several insurance companies, offering lockbox services, check conversion, ACH debit origination, and general accounts receivables and policy management services through a centralized location. Policy holders deal with SmartPay directly regarding billing issues or questions regarding the payment of insurance premiums. Although SmartPay, Inc. handles all of the payment processing functions, including collecting money from policy holders, it is considered to be a third party acting on behalf of each insurance company rather than the party to which funds are ultimately being directed by the insured. In this model, the Company Name Field for any debits originated to the policy holders' accounts by SmartPay must contain the name of the insurer issuing the policy and providing coverage rather than SmartPay, which consolidates payments on behalf of those parties.



**Example #2**

ABC Company offers a salary redirection program to its employees for flexible spending accounts for health and dependent care. A salary redirection agreement is executed between John Smith, an employee of ABC Company, and FSA4U, the plan administrator for ABC Company's flexible spending account program. Under this agreement, Mr. Smith authorizes the plan administrator to initiate ACH entries and agrees to submit specific documentation to the plan administrator prior to the origination of an ACH credit. In an IRS-defined salary deferral program of this type, the plan administrator has a direct contractual relationship with the employee and his or her authorization to initiate ACH credits to support this program and would be identified in the Company Name Field of the entry.

**Example #3**

Miss Johnson decides to place a catalog order with TrailsEnd, an outdoor outfitter, and visits the company's website for more information. While there, she places her order for camping supplies and authorizes payment to be made electronically from her checking account. Later that month, when she receives her bank statement, she notices a debit entry that she doesn't recognize from Outdoors, Inc. Miss Johnson signs a Written Statement of Unauthorized Debit and requests her bank to recredit her for this entry, as she has never heard of Outdoors, Inc. She later discovers that Outdoors, Inc. is the parent company for TrailsEnd and realizes that the debit was for her earlier internet purchase. In this situation, the Company Name Field should have identified TrailsEnd as the Originator — a name that would have been readily known to and recognized by Miss Johnson — and not the name of the parent company.

**Example #4**

Industrial Corporation, a large manufacturing firm, outsources the processing of its employee payroll and expense reimbursement to EZPay ACH Services. EZPay also offers similar services to many other corporate clients, consolidating the work of Industrial Corporation and those other companies and originating transactions through EZPay's own account at Super DFI. Super DFI has an account relationship and an ACH origination agreement directly with EZPay, but it does not have any

relationship directly with Industrial Corporation or the other clients of EZPay.

In this example, EZPay is a third party involved in the origination of ACH transactions on behalf of the actual Originators of the payment, where there is no contractual relationship directly between the ODFI and each Originator. Under the *NACHA Operating Rules*, EZPay is considered to be a Third-Party Sender. Although EZPay initiates the payroll files into the ACH Network through its own account at its own financial institution, it must identify Industrial Corporation and its other clients as the Originators of the payroll files to ensure the entries can be recognized by the companies' employees and for purposes of complying with Regulation E, which requires the name of the third party from which funds are transferred to be provided on the employees' bank statements.

**Example #5**

Mr. Jones uses the internet to establish an account relationship with InstaPay, an online bill payment service provider serving hundreds of consumers. Mr. Jones provides instructions to InstaPay regarding the specific bills to pay each month. Today, Mr. Jones also instructs InstaPay to send a payment to ABC Credit Card Bank to pay his monthly credit card bill. InstaPay pays ABC Credit Card Bank for the amount due from Mr. Jones and, through its own financial institution, initiates a debit entry to Mr. Jones' checking account at First Bank and Trust. Even though InstaPay initiated the debit entry into the ACH Network through its own financial institution, it is acting in the capacity of a third party on behalf of the ultimate payee. In this example, InstaPay must identify ABC Credit Card Bank (rather than itself) in the Company Name Field of the debit to Mr. Jones' account to ensure that Mr. Jones can properly identify the payment and to ensure compliance with Regulation E, which requires the RDFI to identify on the consumer's statement the third party to which funds are transferred.

**Company Identification**

The Company Identification number is agreed upon by the ODFI and the Originator, and is used by the ODFI to identify its customer (the Originator). However, this number is also used by many RDFIs to help identify originating companies that debit or

credit Receiver's accounts, particularly with respect to stop payment orders. ODFIs should keep in mind that using consistent Company Identification numbers for their Originators is helpful to the RDFI and Receiver in properly identifying the source of entries.

### ***ACH Data Security Requirements***

In addition to the ACH Data Security requirements discussed in Chapter 4, Originators have additional obligations under the *Rules* regarding the secure storage and destruction of banking information.

The *Rules* require that Originators of ARC and BOC entries employ commercially reasonable methods to securely store all related source documents until these source documents are destroyed by the Originator. Originators are also obligated to use commercially reasonable methods to securely store all banking information related to ARC and BOC entries. Banking information includes, but is not limited to, an entry, entry data, a routing number, an account number, PINs and other identification symbols, etc.

### ***Processing Relationship with ODFI***

The ODFI and the Originator must mutually determine how the payment information will flow from the Originator into the ACH Network and what the role of the ODFI will be regarding the processing of that information. The role of the ODFI will vary depending on the following:

- the level of sophistication of the ODFI and the Originator in processing ACH entries;
- the ability of the Originator to generate the payment information in ACH format;
- the nature of the payment application;
- the policy of the ODFI regarding the use of a Third-Party Service Provider;
- the policy of the ODFI regarding the use of Sending Points other than the ODFI; and
- the involvement of Third-Party Senders in the origination of ACH entries.

### ***OFAC Regulations***

The U.S. Treasury Department's Office of Foreign Assets Control (OFAC) administers economic sanctions and embargo programs that require that assets and transactions involving the interests of target countries, target country nationals, and other specifically identified companies and individuals ("blocked parties") be frozen. All of the programs administered by OFAC involve declarations of national emergency by the President of the United States.

Like other payment mechanisms, the ACH Network is subject to compliance with OFAC regulations. All U.S. citizens and permanent resident aliens, companies located in the U.S., overseas branches of U.S. companies, and, in some cases, overseas subsidiaries of U.S. companies come under OFAC jurisdiction. In terms of the ACH Network, this means that all U.S. ACH participants, including Originators, ODFIs, RDFIs, and Receivers need to be aware that they may be held accountable for violations of OFAC sanctions and must understand their compliance obligations.

***Detailed information relating to OFAC Regulations and their impact on Originators can be found in Chapter 3 of these Guidelines.***

### ***Identification Numbers***

The Company Identification Number, which appears in the Company/Batch Header record, is agreed upon by the originating company and the ODFI. It is common practice to use one of the ANSI standard identifiers indicating what type of number is used. The ANSI standard identifiers are: "1" (indicating an IRS number); "3" (indicating a DUNS number); or "9" (indicating a user-assigned number).

The Individual ID Number is the number assigned by an Originator for internal control (e.g., an employee number, customer billing number, customer internal account number, etc.). No more than 15 characters of identification can be used for this purpose. (Spaces and dashes are included in the count of 15.) The Individual ID Number is used in the Entry Detail Records of several ACH applications.

### *Testing Procedure*

ODFIs should test ACH files from Originators to ensure that they are either in the proper NACHA format or in the alternative format that has been agreed upon. The level of testing is determined by the complexity of the application.

The more complex the payment application, the greater the testing requirement. For example, the Originator that is transmitting corporate transactions that include multiple addenda records will need to establish a level of testing with the ODFI that reflects the agreed upon parameters of the services that are to be provided by the ODFI.

ODFIs should take appropriate measures to ensure that test data is not inadvertently entered into the live production system or that live files are not held in test mode.

### *Invalid Characters*

The Originator must ensure that no invalid characters are included in ACH files. Characters used in ACH records are limited to 0-9, A-Z, a-z, space, and those special characters which have an EBCDIC value greater than hexadecimal “3F” or an ASCII value greater than hexadecimal “1F.” EBCDIC values “00”-“3F” and ASCII values “00” - “1F” are not valid. Upper case characters must be used for all of the following:

- all alphabetic characters within the Standard Entry Class Code field;
- all alphabetic characters within the File ID Modifier field;
- all alphabetic characters within the Change Code and Refused COR Code fields;
- all alphabetic characters within the Return Reason Code, Dishonored Return Reason Code, and Contested Dishonored Return Reason Code fields;
- Company Entry Description fields containing the words “NONSETTLED,” “RECLAIM,” “RETURN FEE,” “REVERSAL,” “AUTOENROLL” (for ENR entries), “REDEPCHECK” (for RCK entries), and “NO CHECK” (for XCK entries); and

- Company Name fields containing the words “CHECK DESTROYED” (for XCK entries).

The use of invalid characters will cause the batch that contains the invalid character(s) to reject.

### *Input Schedules/Availability of Funds*

An Originator must adhere to the schedules established by the ODFI for input of ACH files. These schedules are set so that the ODFI can deliver files to the ACH Operator for timely distribution and settlement. The Originator should be aware of any modification of the schedule for instances where the expected Settlement Date falls on a weekend or holiday. Warehousing of ACH entries by the ODFI prior to delivery to the ACH Operator is sometimes an option for Originators that wish to prepare files early.

Adherence to input schedules will ensure compliance with certain rules and regulations. For example, when credits are originated, the *NACHA Operating Rules* require that the RDFI make funds available for withdrawal or cash withdrawal on the Settlement Date. Funds must be made available for withdrawal or cash withdrawal at the opening of business on Settlement Date for PPD credit entries that are made available to an RDFI by its ACH Operator by 5:00 p.m. (RDFI’s local time) on the banking day prior to the Settlement Date. ACH Operators offer a variety of input schedules that support availability of files to RDFIs by a certain time each day. Every Originator must determine with its ODFI which input schedule will ensure that the RDFIs can receive files and make funds available, particularly for sensitive entries such as direct deposit of payroll, by the opening of business on Settlement Date. Regulation E obligates the RDFI to post certain transactions to consumer accounts as of the payment date and requires employees’ statements to reflect, among other things, that posting date.

### *Settlement*

#### *Effective Entry Date/Settlement Date*

The Effective Entry Date in the Company Batch Header Record is specified by the Originator as the date on which settlement for entries in that batch is expected to occur. The Settlement Date

is inserted in the Company/Batch Header Record by the Receiving ACH Operator; it represents the Julian date on which settlement is scheduled to occur for the transactions contained in that batch. The Receiving ACH Operator determines the Settlement Date based on the Effective Entry Date and the current ACH processing date.

### Stale-Dated Entries

Although the ACH Operator will accept stale-dated entries, it is not recommended that Originators insert a stale date in the Effective Entry Date field. When a stale date is used, the actual Settlement Date will not be the same as the Effective Entry Date, but instead will be the next available business day (at least one day after the Effective Entry Date). This occurs when the batch was delivered to the ACH Operator with an Effective Entry Date that is the same or earlier than the date on which the ACH Operator processes the file. For example, a batch carrying an Effective Entry Date of March 15, 20xx would settle on the next available business day if March 15 were to fall on a Saturday, Sunday, or holiday. Use of a stale date can cause confusion at the RDFI because the Effective Entry Date and the Settlement Date would not be the same. Also, return entries carry the Effective Entry Date, not the Settlement Date of the original entry.

### Warehousing

The Originator and ODFI must ensure that ACH entries are not delivered to the ACH Operator too early. ACH credit transactions can be submitted to the ACH Operator one or two business days prior to the Effective Entry Date. ACH debit transactions can be submitted to the ACH Operator one business day prior to the Effective Entry Date.

For example, ACH credits with an Effective Entry Date of March 15, 20xx could be submitted to the ACH Operator for processing on March 14 or March 13, 20xx. If submitted on March 12 or earlier, the batch would be rejected. Similarly, ACH debits carrying an Effective Entry Date of March 15, 20xx cannot be submitted to the ACH Operator prior to March 14, 20xx. The Originator and ODFI must determine if ACH entries should be held (warehoused) by the ODFI until the appropriate date on which they can be delivered to the ACH Operator. (The above examples assume that all dates are business days.)

### *Returns, Reinitiation of Entries, Notifications of Change, Rejected Files*

The Originator and ODFI must determine how the Originator wants to receive information on returned entries and notifications of change. The ODFI must also establish procedures for notifying the Originator if a file or batch has been rejected, particularly in the case where it might be necessary for the Originator to recreate the file or batch.

The *NACHA Operating Rules* preclude an Originator or ODFI from reinitiating a returned ACH entry unless (1) the entry has been returned for insufficient or uncollected funds; (2) the entry has been returned for stopped payment and reinitiation has been authorized by the Receiver, or (3) the ODFI has taken corrective action to remedy the reason for the return. The *NACHA Operating Rules* impose a limit on the number of times and the time period within which an entry returned for insufficient or uncollected funds may be reinitiated by an Originator or its ODFI. Specifically, entries returned for these reasons may be reinitiated a maximum of two times following the return of the original entry. This limit is effective for all Standard Entry Class Codes except RCK, which has its own distinct limit on the number of presentments. An Originator or ODFI may reinitiate such returned entries only within 180 days of the Settlement Date of the original entry.

### *Processing Relationship with Receiver*

The Originator will usually develop a processing relationship with the Receiver only when the two parties have entered into a trading partner agreement for the transfer of funds and payment-related information. When agreeing to format and remittance information requirements with its Receiver, the Originator is encouraged to make the Receiver aware that it may obtain all payment-related information transmitted within the addenda records of CCD, CTX, CIE entries, and IAT entries to non-consumer accounts, provided that the Receiver requests such information from its RDFI.



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CHAPTER 18

## **Originators and Return and Dishonored Return Entries**

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### **PREPARING TO RECEIVE RETURNS**

Entries initiated into the ACH Network, either prenotification entries or live dollar entries, may be returned for specific reasons. These reasons are defined by Return Reason Codes. Some codes are used solely by the ACH Operator, while others are used when a return is originated by an RDFI. It is essential that the Originator work closely with its ODFI to establish procedures for handling returns. With the exception of IAT entries, addenda records are not returned. For example, the Originator initiates a CTX entry that carries addenda records. If the CTX entry is returned, it will be returned without the original addenda records. IAT return entries must include the original seven mandatory addenda records.

*A complete list of Return Reason Codes and their uses appears in Appendix Four of the NACHA Operating Rules.*

### **RETURN TYPES**

#### **Returns for Insufficient Funds**

In a debit application, entries can be returned by the RDFI if there are not funds in the Receiver's account to cover the debit entry, i.e., insufficient funds (NSF) or if there are uncollected funds so the entry cannot be honored. The specific Return Reason Codes used by the RDFI are R01 for NSF and R09 for uncollected funds. These codes are unique in that entries returned with the codes can be re-originated through the ACH Network. The Originator will want to make arrangements with its ODFI for the handling of debit entries returned for NSF or uncollected funds. Originators should note that the *NACHA Operating Rules* impose a limit on the number of times that an entry returned for insufficient or uncollected funds may be reinitiated. Detailed information on the reinitiation of returned entries can be found later in this chapter.

#### **Returns for Revocation of Authorization**

In a debit application, entries may be returned by the RDFI as R07 - Authorization Revoked by Customer. This code can be used when the Receiver has provided the RDFI with a Written Statement of Unauthorized Debit in which the Receiver states that the authorization for the debit entry was revoked directly with the Originator under the terms and conditions set forth in the authorization agreement. The Originator may request that its ODFI obtain a copy of the Written Statement of Unauthorized Debit from the RDFI, when appropriate. The ODFI's written request for such a copy must be received by the RDFI within one year of the date on which the Extended Return Entry was initiated by the RDFI. The RDFI must comply with the ODFI's request for a copy of the Written Statement of Unauthorized Debit within ten days of receiving the ODFI's written request for such a document. Originators may not reinitiate entries returned for authorization revoked and should be prepared to contact the Receiver regarding those entries.

#### **Returns of Unauthorized/Improper Consumer Debit Entries**

##### *Unauthorized Consumer Debit Entries*

Originators can expect the return of entries that were not properly authorized. An unauthorized debit entry is an entry in which:

- the authorization requirements have not been followed in accordance with the *Rules* or invalid under applicable legal requirements.
- a transaction was initiated in an amount different than that authorized by the Receiver;
- a transaction was initiated for settlement earlier than authorized by the Receiver.

In general, consumer debit entries returned by the RDFI as unauthorized will bear Return Reason Code R10 and must be returned by the RDFI in such time and manner that the return is 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. (Note: This return deadline is the same as

the return deadline for the return of debit entries for which the consumer Receiver had previously revoked his authorization, which are transmitted using Return Reason Code R07 – Authorization Revoked).

At times, Originators may erroneously transmit ACH Entries that are formatted using an incorrect SEC Code. This is in violation of the *NACHA Operating Rules*. The *Rules* allow the RDFI to rely on the ODFI's warranty that the SEC Code included in the entry is proper and obligates the RDFI to use the return rules and time frames associated with that particular SEC Code.

However, for an unauthorized debit to a consumer account that bears a corporate SEC Code (i.e., CCD or CTX), the RDFI may be unable to meet the time frame for return because the return time frame for corporate entries may have lapsed before the consumer can receive his statement and notify his RDFI about the unauthorized debit to his account. In order to enable the RDFI to treat all unauthorized debits to consumer accounts in a consistent manner, regardless of SEC Code, the *NACHA Operating Rules* define a specific Return Reason Code R05 (Unauthorized Debit to Consumer Account Using Corporate SEC Code) that the RDFI may use to return unauthorized entries to a consumer account that bear a corporate SEC Code. Returns bearing Return Reason Code R05 must be transmitted by the RDFI in such time and manner that the return is 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. Prior to transmitting returns bearing this return code, the RDFI must obtain a Written Statement of Unauthorized Debit from the consumer.

#### *Incomplete Transactions and the Return of Funding Debit Entries*

Effective March 15, 2013, the *Rules* will be amended to allow the return of a debit Entry to a consumer account within 60 days of the Settlement Date for an "Incomplete Transaction." An Incomplete Transaction is defined as a transaction for which a Third Party Sender debits a consumer's account to collect funds, but does not complete the corresponding payment to the party to which payment is owed.

In certain business arrangements, a Third-Party Sender initiates a debit entry to a consumer's account to fund a corresponding payment (e.g., an ACH credit) to a payee. For example, Third-Party Senders may be involved in origination of utility payments, bill payments, tuition payments, etc. In situations where a Third-Party Sender debits a consumer Receiver but does not complete the intended transaction by paying the Receiver's obligation to the payee, the underlying transaction is incomplete (an "Incomplete Transaction"). Incomplete Transactions create service issues for RDFIs, particularly when a Third-Party Sender fails to perform its obligations across a large number of customers.

This rule amendment will permit a consumer Receiver to request, and require the RDFI to provide, re-credit for a debit Entry to the Receiver's account when it is part of an Incomplete Transaction. The rule will also specifically provide for the return of such a debit by the RDFI, putting the obligation for the debit back with the ODFI where it rightfully belongs. The request for re-credit and the RDFI's return of a debit related to an Incomplete Transaction will be subject to the same requirements and time frames currently defined within the *Rules* for the recredit and return of an unauthorized debit to the Receiver's account. Specifically, the rule will require an RDFI to recredit a consumer Receiver for a debit that is part of an Incomplete Transaction if the consumer has provided a Written Statement of Unauthorized Debit. The RDFI will be required to transmit a return in such time and manner as 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 debit Entry. The description of Return Reason Code R10 (Customer Advises Not Authorized, Improper, or Ineligible) will be expanded for this purpose.

As a result of this change, Originators may benefit from a better resolution of the interruption of their customers' payments. When Originators' customers are re-credited by their RDFIs, these customers will be in a position to make alternative payment arrangements with Originators.



### *Ineligible/Improper Consumer Debit Entries*

Originators may also expect the return of entries that were ineligible for ACH origination or that were originated improperly.

- **Ineligible entries:** An ineligible ARC, BOC, POP or RCK entry is one in which the source document related to the entry does not meet the criteria for an eligible source document under the *NACHA Operating Rules*. For more information on eligible and ineligible source documents, please see the chart provided in Appendix E of these *Guidelines*.
- **Improper entries:** An improper ARC, BOC, POP or RCK entry is one in which the source document related to the entry meets the eligibility requirements, but a condition of the authorization for the particular entry has not been met. Article Three, subsection 3.12.2 addresses improper ARC, BOC, POP and RCK entries.

### **Returns of Unauthorized/Improper Corporate Debits**

#### *Unauthorized Corporate Debits*

As with debits to consumer accounts, Originators can expect the return of entries to business accounts that were not properly authorized or that were improperly originated.

An unauthorized debit entry is an entry in which:

- the authorization requirements have not been followed in accordance with the *Rules* or are invalid under applicable legal requirements;
- a transaction was initiated in an amount different than that authorized by the Receiver;
- a transaction was initiated for settlement earlier than authorized by the Receiver.

#### *Ineligible/Improper Debits to Corporate Accounts*

Originators may also expect the return of entries to corporate accounts that were ineligible for ACH origination or that were originated improperly.

- **Ineligible entries:** An ineligible ARC, BOC or POP entry is one in which the source document related to the entry does not meet the criteria for an eligible source document under the *NACHA Operating Rules*. Business checks that bear an Auxiliary On-Us Field in the MICR line and that are in an amount of \$25,000 or more are not eligible for conversion. For more information on eligible and ineligible source documents, please see the chart provided in Appendix E of these *Guidelines*.
- **Improper entries:** An improper ARC, BOC or POP entry is one in which the source document related to the entry meets the eligibility requirements, but a condition of the authorization for the particular entry has not been met. Article Three, subsection 3.12.2 addresses improper ARC, BOC and POP entries.

#### *Returning Unauthorized, Ineligible or Improper Debits*

Unauthorized, ineligible or improper debit entries to business accounts may be returned by the RDFI in one of three ways. The RDFI may return any unauthorized debit as Return Reason Code R29 (Corporate Customer Advises Not Authorized). Returns bearing the R29 Return Reason Code must be received by the RDFI's ACH Operator by its deposit deadline for the return entry to 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. If an RDFI receives written notification from a Receiver after the time for return has expired that a CCD or CTX debit entry to the Receiver's account was not authorized by the Receiver, the RDFI may transmit a permissible return entry to the ODFI, provided that the ODFI has agreed, either verbally or in writing, to accept the late return entry. Such a return must be transmitted using Return Reason Code R31 (Permissible Return Entry). If the unauthorized debit to the business account bears a consumer SEC Code, or if the check conversion entry was ineligible or improperly originated, the RDFI may also transmit the return using return reason code R10. The RDFI must transmit such a return in such a time and manner that the return is made available to the ODFI no later than the opening of business on the banking day following the 60th calendar day following the Settlement Date of the entry.

### **Stop Payments**

Originators may receive entries that are returned because the Receiver has placed a stop payment order on the ACH entry or associated source document. A stop payment order may be for one, several or all future entries. Since the Originator cannot determine the Receiver's intent based on the Return Reason Code R08 - Stop Payment alone, the Originator should contact the customer for this information. The Originator may not reinitiate the returned entry unless the reason for the return is remedied.

### **Returns for Death of Beneficiary, Representative Payee, or Account Holder**

Entries may be returned by the RDFI if the RDFI has become aware of the death of the beneficiary, representative payee, or account holder. Originators should be aware of the specific differences between Return Reason Codes R14 and R15 to ensure that returns bearing these codes are handled appropriately by the Originator.

Originators should be aware that returns bearing Return Reason Code R14 - Representative Payee Deceased or Unable to Continue in that Capacity are transmitted when the representative payee assigned to receive benefit payments on behalf of the entitled individual has died. A representative payee is a person or institution authorized to accept entries on behalf of one or more other persons, such as legally incapacitated adults or minor children. Returns bearing Return Reason Code R14 indicate that the representative payee, and not the beneficiary of the payments, has died. The beneficiary is not deceased and is still entitled to the benefit payments. This Return Reason Code should not be used unless a representative payee exists.

Returns bearing Return Reason Code R15 - Beneficiary or Account Holder [Other Than a Representative Payee] Deceased will indicate either (1) in the case of benefit payments where no representative payee has been assigned, the actual beneficiary is deceased, or (2) in the case where the payment is not a benefit payment (i.e., insurance premium debit), the owner of the account has died and the payment is being returned by the RDFI.

## **PROCESSING GUIDELINES FOR RETURN ENTRIES**

In addition to being knowledgeable about specific Return Reason Codes, the Originator should:

- Establish schedules with its ODFI for the receipt of return data.
- Establish procedures for handling returns for NSF or uncollected funds.
- Establish procedures with the Receiver for an appropriate course of action should an entry be returned:

*credits* – an alternate form of payment may be appropriate until the reason for the credit return is researched and resolved.

*debits* – an alternate form of collection may be appropriate if a debit entry is returned, depending upon the reason for return.

- Establish a deadline for accepting debit returns after which debit returns will be dishonored. A return can be dishonored as untimely only if the return was not initiated within the appropriate time frames, and only if the ODFI or Originator has suffered a loss.

## **REINITIATION OF RETURN ENTRIES**

An Originator may reinitiate an entry that was returned if:

- the entry was returned for insufficient or uncollected funds (the entry cannot be reinitiated more than two times following the return of the original entry);
- the entry was returned for stopped payment and reinitiation has been authorized by the Receiver; or
- the Originator has taken corrective action to remedy the reason for the return.

Reinitiation must take place within one hundred eighty days after the Settlement Date of the original Entry.

Note: Special requirements apply to the reinitiation of RCK entries. See Chapter 46 for more information.

## DISHONORED RETURNS

The Originator may have its ODFI dishonor a return for specific reasons, which fall into two categories as follows:

- The return entry is untimely.
- The return entry contains incorrect information.

The Originator should be aware, however, that the RDFI may contest a dishonor that has been issued for an untimely return, or it may initiate a corrected return. If an Originator fails to utilize the Dishonored Return process, such failure does not preclude its right to seek recovery against an RDFI outside of the ACH return process for a late return.

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### CHAPTER 19

## Originators and Prenotifications and Notifications of Change

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### PRENOTIFICATIONS

A prenotification is a Non-Monetary Entry sent through the ACH Network by an Originator to an RDFI. It conveys the same information (with the exception of the dollar amount and transaction code) that will be carried on subsequent entries, and it allows the RDFI to verify the accuracy of the account data.

#### ***Prenotification Process***

Use of the prenotification process by an Originator is optional for all Standard Entry Class Codes. Since the prenotification process helps to ensure that subsequent entries to a Receiver's account at an RDFI are posted appropriately, an Originator may initiate a prenotification entry for any ACH transaction. In choosing to transmit prenotification entries, however, an Originator must fulfill all other requirements relating to prenotifications as

provided for within the *NACHA Operating Rules* and as outlined below.

A prenotification entry may be originated at any time. If an Originator chooses to transmit prenotification entries, however, it may not initiate live dollar entries until at least six banking days following the Settlement Date of the prenotification entry. The prenote must carry an appropriate Effective Entry Date to be processed through the ACH system (it is not the date of the first live entry). Any prenotification entry with an Effective Entry Date that falls outside of the processing window will be rejected by the ACH Operator just as it would if it were a live entry.

The format of a prenotification entry is the same as a live dollar entry, except in the Entry Detail Record, in which the dollar amount is zero and the transaction code indicates a prenotification entry. Prenotification entries may be intermingled within a batch of credit and/or debit live dollar entries. The Transaction Codes for prenotification entries are:

- 23 Prenotification for DDA credit.
- 28 Prenotification for DDA debit.
- 33 Prenotification for Savings credit.
- 38 Prenotification for Savings debit.
- 43 Prenotification for General Ledger credit.
- 48 Prenotification for General Ledger debit.
- 53 Prenotification for Loan Account credit.

#### ***Response to Prenotification Returns and Notifications of Change***

There are three ways that an Originator can receive a response to a prenotification. The prenotification can be:

- returned by the ACH Operator as unprocessable;
- returned by the RDFI; or,
- result in the origination of a Notification of Change (NOC) from the RDFI.

The response to the prenotification will determine the Originator's course of action.

- If a prenotification is returned by the ACH Operator, then the Originator should be aware that the RDFI has never received the prenote. The Originator should research the reason for the return and make any necessary corrections before transmitting another entry.
- If a prenotification is returned by the RDFI, then the Originator should research the problem according to the Return Reason Code contained on the return entry and make any necessary corrections prior to transmitting a subsequent entry.
- If a prenotification results in a Notification of Change, then the Originator should make the required change within six banking days of receipt of the NOC information or prior to initiating another entry, whichever is later, or issue a Refused Notification of Change.

## NOTIFICATIONS OF CHANGE

A Notification of Change (NOC) is a Non-Monetary Entry transmitted by an RDFI to the Originator through the ODFI. It is created when the RDFI receives a prenotification or a live dollar entry that contains incorrect information. A Notification of Change:

- identifies the entry that has been received at the RDFI;
- pinpoints the specific information on that entry that is incorrect; and
- provides the correct information in a precise format so the Originator can make the change.

Notifications of Change have a unique Standard Entry Class Code, COR, and a unique Addenda Type Code, “98”.

***A complete list of change codes for Notifications of Change appears in Appendix Five of the NACHA Operating Rules.***

### ***Responsibilities of Originators***

Originators must respond to Notifications of Change by investigating incorrect data and making

corrections 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 should not wait six banking days if the change can be made earlier – they should make the change prior to initiating the next entry, if possible. Originators should be thoroughly familiar with the NOC Change Codes and their meanings. Originators should work with their ODFIs to agree upon the method by which NOC information will be provided by the ODFI (e.g., via electronic media, paper format, etc.) and should ensure that they have a thorough understanding of how to interpret NOC provided by their financial institutions.

NOC Change Codes generally fall into two categories:

- *Codes that indicate an error in the account information* – entries carrying these codes indicate that the RDFI did receive the entry but the account information or information regarding the Receiver was incorrect. Changes must be made so that the RDFI can handle the entry appropriately.
- *Codes that indicate an error in the routing of the entry* – entries carrying these codes indicate that the routing information must be changed. Failure to change the routing information could cause subsequent entries to that particular account to be delayed or returned. An Originator should not assume, however, that a change to a routing number affects all ACH transactions going to that routing number. For example, if a financial institution buys some branches of a failed institution, it might initiate NOCs only for those specific accounts they have now taken over. The original routing number may be valid for other accounts.

Originators should monitor Notifications of Change that are received to determine whether their enrollment procedures need to be modified.

When identifying the original entry referenced in an NOC, Originators should be aware that, when an account or branch has been sold to another RDFI, the routing number in the Receiving DFI

Identification field of the original entry may not match the routing number in the Originating DFI Identification field of the NOC. However, the RDFI's routing number from the original entry can be located in the Original Receiving DFI Identification field in the addenda record of the NOC.

An Originator should be familiar with the Refused Notification of Change process for its ODFI to notify the RDFI that it cannot process the Notification of Change. Procedures must be established between the Originator and the ODFI for the origination of Refused NOCs, which must be in automated format.

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## CHAPTER 20

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# Originators and Reversals and Reclamations

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Once an entry or file of entries has been transmitted into the ACH Network, it cannot be recalled, but an erroneous or duplicate file may be reversed. If a single entry has been duplicated or originated erroneously, the ODFI may either request the RDFI to return the entry or transmit a reversing entry. Reversal capability allows fast, efficient, and accurate recovery from an error. Originators can initiate a reversal, depending upon the reason for the reversal.

An Originator may initiate a reclamation entry for pension, annuity or other benefit payments by PPD, as provided for in sections 2.10 (Reclamation Entries and Written Demands for Payment) and 3.6.2 (Liability of RDFI for Reclamation Entries and Written Demands for Payment) of the *NACHA Operating Rules*, if;

- the Receiver is deceased; and
- neither the Receiver's estate nor any other account holder is entitled to the payment.

## FILE REVERSALS

File reversals may be originated to correct a duplicated file or an erroneous file in which substantially all of the entries were incorrect. A

reversing file can include an entire file or a number of batches that constitute a segment of a file. A reversing file should only reverse those batches that were duplicate or erroneous.

### ***Duplicate Files***

A duplicate file is a file that was erroneously introduced into the ACH Network twice. Duplicate files are exact in that all data within the two files are exactly the same, including effective entry dates, trace numbers, dollar amounts, etc. Therefore, the Receiver was erroneously paid (credits) or charged (debits) twice.

### ***Erroneous Files***

An erroneous file is one in which the information within a substantial number of the entries was incorrect. For example, the Receivers' account numbers could all be invalid, causing the entries to be posted or rejected incorrectly, or the dollar amount could have been incorrectly calculated, causing the Receiver to be credited or debited incorrectly.

### ***Procedures***

It is the responsibility of the party that originated the duplicate or erroneous file to reverse that file. Each reversing file must be in the format required by ACH specifications. When a file is reversed due to duplication or error, the Originator or ODFI must:

- Initiate the reversing file so that it can be transmitted or made available to the RDFI(s) within 5 banking days after the Settlement Date for the entries within the duplicate or erroneous file.
- Place the word "REVERSAL" in the Company Entry Description Field of each Company/Batch Header Record.
- Transmit the file to the Originating ACH Operator within 24 hours of the discovery of the error.
- Initiate a correcting file with the reversing file, if the file is reversing an erroneous file.



### **Authorization**

The rules and requirements for authorization do not apply for reversing files.

### **Additional Suggestions for Action**

The origination of duplicate and erroneous files is clearly an exception condition that can cause confusion and mishandling of ACH entries. The best protection against error is to ensure that procedures are in place to reduce or eliminate the possibility that duplicate or erroneous files will be originated. Originators and ODFIs should:

- take steps to ensure that all files are originated correctly;
- establish procedures to identify errors quickly; and
- institute methods to initiate reversing files immediately, when necessary.

If a file is duplicated or originated erroneously, there are certain steps that an Originator and ODFI can take to assist other parties that may be affected:

- ensure that appropriate personnel are aware that an error has occurred and are aware of the correcting action taken;
- contact as many parties (ACH Operator, ACH Association, RDFIs) as possible to advise them of the error and of the correcting action taken; and,
- establish procedures to reduce the possibility that the same error can happen again.

### **REVERSING ENTRIES**

An Originator that originates a payment in error may originate a reversing entry. An erroneous entry is an entry that (1) is a duplicate of an entry previously initiated by the Originator or ODFI; (2) orders payment to or from a Receiver different than the Receiver intended to be credited or debited by the Originator; (3) orders payment in an amount different than was intended by the Originator; or (4) is a PPD credit entry satisfying each of the following criteria: (i) the PPD credit entry

is for funds related to a Receiver's employment; (ii) the value of the PPD credit is fully included in the amount of a check delivered to the same Receiver at or prior to the Receiver's separation from employment; (iii) the PPD credit entry was transmitted by the Originator prior to the delivery of the check to the Receiver. A reversing entry may be initiated under the following conditions:

- Only an Originator may initiate a reversing entry.
- As required by the *NACHA Operating Rules*, the Originator must make a reasonable attempt to notify the Receiver of and the reason for the reversing entry no later than the Settlement Date of the reversing entry. This will ensure that Receivers are made aware of ACH reversal activity to their accounts prior to the receipt of their periodic account statements. The *NACHA Operating Rules* do not prescribe the method (i.e., mail, telephone, fax, etc.) by which Originators must provide notice to Receivers; instead, the choice of method is at the discretion of the Originator.
- The reversing entry must be transmitted to the RDFI by midnight of the fifth banking day following settlement of the erroneous entry.
- The advance notification rule for variable amount debits and the rules governing authorization requirements do not apply to reversing entries. However, the Originator may consider obtaining, in advance, direct authorization from the Receiver for reversing entries.

### **RECLAMATIONS FOR BENEFIT PAYMENTS**

An Originator or ODFI may initiate a reclamation entry or written demand for payment for pension, annuity or other benefit payments by PPD, as provided for in section 2.10 (Reclamation Entries and Written Demands for Payment) of the *NACHA Operating Rules*, if:

1. the Receiver is deceased; and
2. neither the Receiver's estate nor any other account holder is entitled to the payment.



The reclamation entry is a debit entry that must be originated in an amount equal to or less than the pension, annuity, or other benefit payment to which the Receiver was not entitled.

The reclamation entry or written demand for payment must contain:

- the name of the Receiver;
- the deceased Receiver's account number;
- the exact amount of the entry being reclaimed; and
- the approximate date the entry being reclaimed was initiated.

Reclamation entries must also contain the word RECLAIM in the Company Entry Description Field of the Company/Batch Header Record.

The Originator or ODFI must originate a reclamation entry or written demand for payment within five banking days after the Originator receives notice of the Receiver's death. If a reclamation entry is returned by the RDFI, the Originator may make a written demand for payment within 15 banking days after it receives a returned reclamation entry.

## PART THREE

### RIGHTS AND RESPONSIBILITIES OF THIRD-PARTY SENDERS

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#### CHAPTER 21

### Relationship with Originators and ODFIs

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A Third-Party Sender is a type of Third-Party Service Provider. It is an organization that is not an Originator that authorizes an ODFI or another Third-Party Sender to transmit credit, debit or non-monetary entries for the account of the Third-Party Sender or another Third-Party Sender. A Third-Party Sender acts as an intermediary between the

ODFI and the Originator; there is no contractual agreement between the Originator and the ODFI.

### ORIGINATORS

The *NACHA Operating Rules* require that the agreements between the Third-Party Sender and its Originators include at least the same provisions required by an origination agreement between the Originator and the ODFI. The agreements should also identify processing requirements for the specific applications, and establish liability and accountability for certain procedures related to the applications. In some instances, provisions of the agreement may be superseded by applicable federal or state law (e.g., Uniform Commercial Code Article 4A or the Electronic Fund Transfer Act).

***Please see Appendix C of these Guidelines for a list of issues that the Third-Party Sender and its Originator may specifically define in their origination agreement.***

### ODFIs

The unique position of Third-Party Senders within the ACH transaction flow can result in increased risk to Network participants due to the lack of a direct contractual relationship between the Originator and the ODFI. The *NACHA Operating Rules* require Third-Party Senders and their ODFIs to enter into originations agreements to help protect the ODFI against credit risk by providing them with the ability to seek recovery of payment directly from the Originator.

The origination agreement must include each of the following provisions:

- The Third-Party Sender, on behalf of the Originator, must authorize the ODFI to originate entries on behalf of the Originator to Receivers' accounts;
- The Third-Party Sender must agree to be bound by the *NACHA Operating Rules*;
- The Third-Party Sender must agree not to originate entries that violate U.S. law;

- Any restrictions on the types of entries that may be originated;
- The right of the ODFI to audit the Third-Party Sender's and its Originators' compliance with the origination agreement and the *Rules*; and
- The Third-Party Sender must agree that, before permitting an Originator to originate any entry directly or indirectly through the ODFI, it will enter into an agreement with the Originator that satisfies each of the requirements of an origination agreement under the *Rules*.

In addition to requiring specific provisions in their agreements with the ODFI, the *Rules* also subject Third-Party Senders to a number of obligations:

- **Identification of Originators** – The *Rules* obligate each Third-Party Sender to provide the ODFI with any information that the ODFI considers to be reasonably necessary to identify each Originator for which the ODFI transmits entries. Upon the receipt of a request from the ODFI for such information, the Third-Party Sender must provide the requested data to the ODFI within two banking days.
- **Warranties of/Indemnifications by Third-Party Senders** – Each Third-Party Sender that authorizes an ODFI to transmit entries to a Receiver's account warrants to the ODFI that the Originator has agreed to assume the responsibilities of an Originator, as required by the *NACHA Operating Rules*. In any case in which the Originator fails to perform its obligations as an Originator under the *Rules*, the Third-Party Sender indemnifies the ODFI against any loss.
- **Performance of ODFI Obligations** – If a Third-Party Sender performs any obligations of an ODFI under the *Rules*, the Third-Party Sender must also perform the requirements of an ODFI under the *Rules*, and must warrant that it is legally able to do so. These responsibilities include conducting an annual audit of the Third-Party Sender's compliance with the *NACHA Operating Rules*. The *Rules* do not relieve the ODFI of any of its obligations when they are performed by a Third Party Sender.
- **Payment to ODFI** – Each Third-Party Sender is obligated to make payment to the ODFI for all credit entries and for all debit entries that are returned by the RDFI. In the event that the ODFI does not receive payment from the Third-Party Sender, the Originator of the entry agrees to pay the ODFI.
- **Performance of Originator Responsibilities** – The Third-Party Sender and its Originators are responsible for the retention and delivery of any records, documentation and data related to copies of items, copies of source documents or records of authorization.

*Section VI, Chapter 50 of these Guidelines contains an expanded discussion of Third-Party Senders and Third-Party Service Providers.*

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## SECTION V

# Standard Entry Class Codes

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### CHAPTER 36

### Acknowledgment Entries (ACK & ATX)

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Two Standard Entry Class Codes are available for use by ACH participants that allow Originators to request an acknowledgment from the RDFI that a corporate credit entry has been received and that the RDFI will attempt to post the payment to the Receiver's account.

The ACK and ATX Standard Entry Class Codes provide the platform for state and Federal

government agencies and other corporate users to utilize the ACH Network for acknowledgment purposes.

An acknowledgment entry is a non-dollar transaction transmitted by the RDFI in response to a request for an acknowledgment contained within the forward CCD or CTX credit entry. The ACK format is used by the RDFI to acknowledge the receipt of entries originated using the CCD format. The ATX format is used by the RDFI to acknowledge the receipt of entries originated using the CTX format.

Use of the ACH acknowledgment process is optional for all participants, enabling corporations and financial institutions to utilize and/or provide ACH acknowledgment services based upon their individual organizations' business needs.

## RESPONSIBILITIES OF ORIGINATORS

Since the ACH acknowledgment process is an optional service for all ACH participants, Originators and Receivers wishing to exchange acknowledgments via the ACH Network will need to address the use of acknowledgment entries in their trading partner agreements. Originators should also be aware that the ODFI and RDFI involved in the payment process may, but are not required to, receive and process acknowledgment entries on behalf of their corporate customers. As a result, Originators choosing to utilize the acknowledgment process should address the use of the acknowledgment process in their Originator-ODFI agreements.

### *Request for Acknowledgment*

An Originator may request that an acknowledgment entry be transmitted by the RDFI in response to a CCD or CTX credit entry by placing "AK" within the Discretionary Data field of the CCD or CTX entry for which the acknowledgment is desired. An RDFI that supports the acknowledgment process will transmit an acknowledgment entry with the Standard Entry Class Code "ACK" to the ODFI in response to a CCD entry for which an acknowledgment entry is requested. An acknowledgment entry with the Standard Entry Class Code "ATX" will be transmitted by the RDFI in response to a CTX entry for which an acknowledgment entry is requested. It should be

noted that, in order for the Originator to receive the requested acknowledgment, both the ODFI and the RDFI of the entry must support the appropriate acknowledgment formats. Originators may wish to consider whether they need to develop a process to identify and react to situations in which a requested acknowledgment entry is not received.

An RDFI which supports the ACH acknowledgment process will transmit an ACK or ATX entry so that it is made available to the ODFI no later than the opening of business on the second banking day following the Settlement Date of the CCD or CTX entry to which the acknowledgment relates. An ACK or ATX entry transmitted by the RDFI in response to a request for an acknowledgment may be accompanied by one optional Addenda Record. The Addenda Record contains an 80-character Payment-Related Information field, within which an ANSI ASC X12 REF (Reference) data segment may be entered which includes information about the acknowledgment as agreed to by the trading partners.

### *Refused Acknowledgment Entries*

In the event that an Originator receives an ACK or ATX entry that is transmitted to it in error by the RDFI or that contains incorrect information, the Originator may request its ODFI to transmit a refused acknowledgment entry to the RDFI in accordance with the requirements of the *NACHA Operating Rules*. A refused acknowledgment entry (refused ACK or refused ATX) should be transmitted by the ODFI within fifteen days of the Settlement Date of the misrouted or erroneous acknowledgment entry.

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## CHAPTER 37

### **Accounts Receivable Entries (ARC)**

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An Accounts Receivable Entry (ARC) is a Single Entry Debit initiated by an Originator to the account of a Receiver based on an eligible source document provided to the Originator by the Receiver (check writer) (1) via the U.S. mail or

delivery service, (2) at a dropbox location, or (3) in person for payment of a bill at a manned location.

The *Rules* governing ARC entries define specific eligibility requirements and limits on the types of source documents that may be converted. Originators are permitted to convert only checks written for an amount of \$25,000 or less. Further, to enable Originators to readily identify business checks that are ineligible for conversion and exclude those items from ACH conversion, ARC rules require Originators to exclude from conversion any check that contains an Auxiliary On-Us Field within the MICR line.

### INITIATING AN ARC ENTRY — AN OVERVIEW

- The Originator provides the Receiver (the check writer) with notice prior to receipt of the eligible source document, stating that a check may be converted and collected electronically. For the in-person payment of a bill at a manned bill payment location, the Originator must also provide the Receiver with a copy of the notice, or language that is substantially similar, at the time of the transaction.
- Receiver (customer) either mails or delivers to an unmanned dropbox a check for a payment to the Originator, or presents a check to the Originator in-person for the payment of a bill at a manned location.
- The Originator (usually a biller, such as a utility company, financial institution, credit card issuer, internet or telecommunications company) uses a check reading device to capture MICR information from the check (i.e., routing number, account number and serial number), which is used by the Originator to generate a debit entry to the Receiver's account. The Originator may not key enter MICR information from the check, nor may the originator key enter MICR information after the check reader has captured the data, except as specifically noted later in this chapter.
- The amount of the entry is also entered from the check.

### SOURCE DOCUMENTS

The Originator can accept an eligible check as a source document to initiate an ARC entry only if (1) it has been sent through the U.S. mail (or an equivalent service, such as an overnight delivery service); (2) it has been delivered to a dropbox; or (3) it has been presented by the Receiver in-person for the payment of a bill at a manned location. (For a detailed list of eligibility criteria for check conversion entries, refer to the Source Document Eligibility Charts in Appendix E of these *Guidelines*, or to the definition of Eligible Source Document within Article Eight of the *Rules*.)

### OBLIGATIONS OF ORIGINATORS

#### *Agreements With ODFIs*

An Originator using the ACH Network to convert eligible checks received (1) through the U.S. mail (or via an equivalent delivery service), (2) at a dropbox location, or (3) in-person for the payment of a bill at a manned location, and collect them using Accounts Receivable Entries should consider modifications to its agreement with its ODFI to address specific issues related to the origination of ARC entries. In addition to being bound to the requirements of the *NACHA Operating Rules* through its ODFI/Originator agreement, an Originator and its ODFI should also address any processing obligations, timing, liabilities, etc., that are unique to the ARC application. These modifications could, for example, address the extent to which the Originator and ODFI share liability for the following warranties as they apply to the origination of ARC entries:

- The amount of the entry, the routing number, the account number, and the check serial number are in accordance with the source document;
- The Originator must retain a reproducible and legible copy of the front of the Receiver's source document for two years from the Settlement Date of the ARC entry. Upon receipt of an RDFI's written request, the ODFI must provide such copy to the RDFI within ten banking days. Originators must be prepared to provide such copies to their ODFIs for this purpose. Originators may also choose, at their discretion, to retain a copy of the back of the Receiver's source document.



- The source document used for an ARC entry must not be presented for payment unless the ARC entry is returned by the RDFI. That is, to avoid “double dipping,” the check may not be collected through the paper collection system unless the ACH debit is returned by the RDFI. In addition to the RDFI and ACH Operator, this warranty runs to any other party that may be liable on the source document.
- The Originator must employ commercially reasonable methods to securely store (1) all source documents until destruction, and (2) all banking information relating to ARC entries.

### ***Authorization/Notification Requirements***

Originators are required to provide notice to the Receiver, prior to the receipt of each source document that will be used as the basis for the origination of an ARC entry, that receipt of the Receiver’s check is deemed to be the Receiver’s authorization for an ACH debit entry to the Receiver’s account, in accordance with the terms of the source document. The check is used solely as a source document for capturing the Receiver’s routing number, account number, check serial number, and dollar amount for the entry. The provision of the notice by the Originator to the Receiver and the receipt of the source document together constitute authorization of the ARC entry.

The rules governing ARC incorporate Regulation E safe harbor language into the required notice, requiring that the notice include the following, or substantially similar, language:

“When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction.”

The following alternative safe harbor language is also provided by Regulation E and may be used to comply with these notice requirements:

“When you provide a check as payment, you authorize us to use information from your check to make a one-time electronic fund transfer from your account. In certain circumstances, such as for technical or processing reasons, we may process your payment as a check transaction.”

An Originator may also choose to use wording other than the Regulation E safe harbor language provided above, provided that it is substantially similar to the Regulation E safe harbor language.

For purposes of Regulation E, electronic check transactions are one-time transfers, which require notice to be provided and an authorization obtained from the Receiver for each entry. As a result, the ARC notice discussed above must be provided to the Receiver prior to the initiation of each ARC entry. The Originator must also provide a copy of the notice, or language that is substantially similar, to the Receiver at the time of the transaction when the source document for the Entry is provided by the Receiver in-person for payment of a bill at a manned location.

Originators must ensure that the required notice is clear and readily understandable, and must provide it in a prominent and conspicuous manner. A notice in small print and buried in the middle of unrelated information, for example, is not considered to be in a prominent and conspicuous location. It is common practice for Originators to provide the required notice by placing it on the face of the bill (which billers may present to their customers in paper or electronic form) or on the back of the bill’s first page. Originators should consider using headings preceding the notice to draw attention to the information presented to Receivers, or the use of indicators on the front of the statement to direct them to complete language on the reverse side. If the required notice is not included on the bill, an Originator intending to convert eligible checks to ARC Entries must ensure that such notice is provided to the Receiver prior to accepting the check as payment. An Originator could, for example, accomplish this by posting signage with the required language in a prominent

and conspicuous location at the manned bill payment location and providing the check writer with a take away copy of the notice.

#### *Notice on Coupon Books*

In certain, limited circumstances, however, such as where lenders provide coupon books to Receivers (typically for mortgages, automobile loans, personal loans, and other recurring loan payments), Originators do not have the same opportunities to provide notice as they do with in-person transactions or with mailed billing statements or invoices because the coupon books are provided to the Receiver in advance and include coupons for several payments. Because a coupon book is designed so that a consumer must detach a coupon from the book and provide the coupon with each payment, a separate notice with respect to check conversion need not be printed on each payment coupon, provided that the notice is placed in a conspicuous location on the coupon book (e.g., on the first page or inside the front cover) that the consumer can retain.

#### *Notice When Multiple Payments or Multiple Checks are Provided for One Bill*

In other circumstances, where multiple payments may be remitted in response to one bill or invoice, such as when multiple checks are submitted within a particular billing period related to one account, or multiple checks are received from the Receiver or another party with respect to a particular account, it may be difficult for Originators to provide notice prior to the receipt of each individual check. Under these circumstances, the provision of the required notice to the Receiver listed on the billing account is sufficient for the conversion of all checks provided in payment for the billing cycle or the invoice for which notice was provided, regardless of whether the checks are received from the Receiver or another party for that account. This notice applies to all checks submitted as payment until the provision of notice on or with the next invoice or statement.

#### *Opting Out of Check Conversion*

At their discretion, Originators of ARC entries may choose to allow Receivers to opt out of ARC check conversion, although the *NACHA Operating Rules* do not require them to do so. Originators that provide their customers with an opt-out option may establish their own reasonable policies and practices for enabling a Receiver to opt out of check conversion for a specific checking account.

#### *Requirements for MICR Capture*

During initial processing of ARC entries, Originators must use a reading device to capture the Receiver's routing number, account number, and check serial number from the MICR line of the Receiver's eligible source document. Although this data may not be key entered during initial processing, key entry is permitted for subsequent correction of errors related to MICR misreads, misencoding, or processing rejects.

Although the *Rules* require an RDFI to accept an ACH transaction that bears information that was accurately obtained from the on-us field of the MICR line of a check, differences in banks' MICR lines may present Originators with challenges properly parsing the MICR line for accurate formatting of an ARC entry. Originators may wish to consider the development of databases and the use of other available MICR resources to facilitate processing of ARC transactions.

#### *Collection of Return Fees*

ARC entries must be originated so that the amount of the entry, the routing number, the account number, and the check serial number accurately reflect the source document. No fees of any type may be added to the amount of the source document when it is transmitted as an ARC entry.

An Originator desiring to use the ACH Network to collect a Return Fee from a Receiver must originate a separate Return Fee Entry using the appropriate Standard Entry Class Code and must follow all rules governing the origination of Return Fee Entries. For specific information on Return Fee Entries, please refer to Chapter 54 in the Special Topics section of these Guidelines.



Originators need to be aware that the requirements of the *NACHA Operating Rules* regarding the origination of Return Fee Entries are in addition to any requirements defined by applicable state law governing Return Fees. Originators are responsible for determining what the applicable state laws are, if any, for each of their check-accepting locations that intend to, or may, use the ACH Network for the collection of Return Fees.

### **Formatting Requirements**

- **Dollar Amount** – ARC entries must be originated for amounts of \$25,000 or less.
- **Company Name** – Originators must ensure that the name of the Originator (that is, the payee of the source document) or the payee name indicated on the bill or invoice appears within the Company Name Field of the Company/Batch Header Record of the ARC entry. The contents of this field are provided to the Receiver for descriptive purposes by the RDFI, and must be formatted in such a manner that the Receiver can easily recognize the Originator of the payment (e.g., a trading as or doing business as name, etc.). Originators should be aware that the Receiver looks for a familiar name to identify the transaction; if the Receiver does not recognize the Company Name as presented on his statement, the Receiver may instruct his RDFI to return the transaction as unauthorized.
- **Check Serial Number** – The check serial number of the eligible source document to which the ARC entry relates must be placed within the Check Serial Number Field of the ARC Entry Detail Record.

The *NACHA Operating Rules* permit Originators to place **only** the check serial number within the Check Serial Number Field of the ARC Entry Detail Record. That is, the word “check,” abbreviations such as “ck” or “chk,” or other merchant codes must not be included within the field. Because the Check Serial Number Field is defined as an alphanumeric one, the *NACHA Operating Rules* require information within this field to be left justified and space filled. The serial number of the check must begin in the leftmost

position of the Check Serial Number field, and any unused spaces within the field must be left blank.

Therefore, for check number 1234:

CORRECT	1234
INCORRECT	0001234
	000000000001234
	CK# 001234
	CK1234
	1234 6532986002
	CK1234 48832817

Originators should be aware that the *NACHA Operating Rules* require RDFIs to print the check serial number on both consumer and business Receivers’ bank statements.

- **Individual Name/Receiving Company Name** – The inclusion of the Receiver’s name within the Individual Name/Receiving Company Name Field of the ARC Entry Detail Record is optional, at the discretion of the Originator. If the Originator chooses to utilize this field, it must include either (1) the Receiver’s name, or (2) a reference number, identification number, or code that the merchant uses to identify a particular transaction or customer. (NOTE: When a reference number, identification number, or code is used to identify the transaction or customer, it should be uniquely related to the Receiver or transaction. A generic description is not an acceptable means to identify the Receiver or the transaction.)

### **Reinitiation of ARC Entries**

ARC entries that have been returned for insufficient or uncollected funds may be reinitiated up to two times following the return of the original entry, provided such reinitiations are transmitted by the Originator (or its ODFI on the Originator’s behalf) within 180 days of the settlement date of the original entry.

For ARC entries returned for any other reason, the Originator must first remedy the reason for the return before reinitiating the transaction within the 180-day time period discussed above.

### ***Retention/Secure Storage of Source Documents and Payment Information***

Each Originator of ARC entries must retain a reproducible image or other copy of the front of the Receiver's source document for a period of two years from the Settlement Date of the entry. Originators may also choose, at their discretion, to retain a copy of the back of the Receiver's source document. The Originator must be prepared to provide such a copy to the ODFI, as the ODFI is required to send a copy of the front of the source document to the RDFI within 10 banking days of receipt of the RDFI's written request, provided that the RDFI's request is received within two years of the Settlement Date of the entry.

The *Rules* do not explicitly require an Originator to destroy the source document to which the ARC entry relates. Although an Originator may use its discretion in determining how long to retain the original source document, Originators are encouraged to establish policies and procedures to destroy ARC source documents as soon as is reasonable to protect against the risk of fraud or erroneous entry of the check into the check processing system. Until such time that the source document is destroyed by the Originator, it must be securely stored using commercially reasonable methods.

The *Rules* also require Originators to use commercially reasonable methods to securely store all banking information related to the ARC transaction. Banking information includes, but is not limited to, an entry, entry data, a routing number, an account number, PINs and other identification symbols, etc.

For a discussion on the concept of commercially reasonable standards, please refer Chapter 4 of these *Guidelines*.

Although the *NACHA Operating Rules* do not otherwise address data security with respect to the secure storage of banking and related information, such requirements may be governed by state or Federal laws and regulations. Originators should ensure that they are familiar with any such laws when determining the commercial reasonableness of their storage methods.

When choosing a commercially reasonable method for secure data storage, Originators should consider the following guidance provided by the Federal Trade Commission for complying with the Safeguards Rule, which implements security measures within the Gramm-Leach-Bliley Act.

- know where sensitive information is stored and that it is stored securely;
- ensure that only authorized personnel have access to sensitive data;
- ensure that storage areas are protected against destruction or damage from physical hazards such as fire or floods;
- store records in a room or cabinet that is locked when unattended;
- when information is stored on a server or other computer, ensure that the computer is accessible only with a strong password and that it is kept in a physically secure area;
- avoid storing sensitive information on an electronic device with an Internet connection;
- maintain secure backup records and keep archived data secure by storing it off-line and in a physically secure area;
- maintain a careful and accurate inventory of the company's electronic devices and of the storage location of any other sensitive information.

When destroying ARC source documents or other banking information, Originators should establish reasonable measures for destroying such information that may include:

- burning, pulverizing, or shredding papers that contain such information so that the information can not be read or reconstructed;
- using outside disposal company that has been certified by a recognized industry group;
- destroying and/or erasing data when disposing of computers, disks, CDs, magnetic tapes, hard drives, laptops, PDAs, cell phones, or any

other electronic media or hardware containing banking information.

### ***Return of Accounts Receivable Entries***

ARC entries are governed by the same Return Reasons and Return Reason Codes as other ACH debit entries (a complete listing of Return Reason Codes can be found within Appendix Four of the *NACHA Operating Rules*). In addition, some special circumstances can apply, as described below.

#### ***Return by ACH Operator***

ARC entries are limited to dollar amounts of \$25,000 or less. Any ARC entry originated in an amount greater than \$25,000 will be returned by the ACH Operator.

#### ***Return by RDFI***

##### ***Timing of Returns***

Most ARC entries need to be returned by the RDFI 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 ARC entry.

In the following circumstances, an RDFI may also return an ARC entry so that it is made available to the ODFI by opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry for the following reasons: 1) no notice was provided to the Receiver that the check was going to be converted to an ACH debit, 2) improper source document, 3) the source document was presented for payment as a check through the check collection system, or 4) the ARC transaction was initiated in an amount other than that indicated on the source document. In these circumstances, the RDFI requires the Receiver to sign or similarly authenticate a written statement of unauthorized debit prior to being re-credited for the transaction.

#### ***Returns for Improper Source Documents or When Both ARC Entry and Source Document Have Been Presented***

With respect to ARC entries based on improper source documents or where both the ARC entry and the source document have been presented for payment, an RDFI may return such entries in either of two ways:

1. An RDFI that determines that an ARC entry was based on an improper source document, or that the entry and the source document were both presented for payment, may return the entry using Return Reason Code, R39 (Improper Source Document/Source Document Presented for Payment). Entries returned using this return reason code must be received by the RDFI's ACH Operator's deposit deadline for the return entry to be made available to the ODFI no later than opening of business on the second banking day following the Settlement Date of the original entry. No written statement of unauthorized debit is required for this code.
2. When the Receiver, rather than the RDFI, as discussed above, determines that the source document to which an ARC entry relates was improper or that the entry and the source document were both presented for payment, the RDFI may return the entry so that it is made available to the ODFI by the opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry using Return Reason Code R10 or R37, respectively. A written statement of unauthorized debit is required when using either of these return reason codes.

#### ***Stop Payments***

As with other Single-Entry ACH transactions, a Receiver desiring to place a stop payment order on an ARC entry may do so, provided that he notifies his RDFI in such a time and manner that allows the RDFI a reasonable opportunity to act on the stop payment order prior to acting on the debit entry. ARC entries returned by the RDFI as payment stopped will bear the Return Reason Code R08 and will be made available to the ODFI by opening of business on the second banking day following the settlement date of the ARC entry.

Originators should note that the RDFI may also return an ARC entry if the Receiver places a stop payment on the source document (i.e., in the check stop payment system) instead of the ACH stop payment system. In this situation, the RDFI must transmit the return using Return Reason Code R38 (Stop Payment on Source Document) so that it is made available to the ODFI by the opening of business on the banking day following

the sixtieth calendar day following the Settlement Date of the original entry. This time frame allows a “safety net” for RDFIs that have not linked their check and ACH systems to check for stop payment orders for this application. A written statement of unauthorized debit is not required for this return reason.

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## CHAPTER 38

### Back Office Conversion Entries (BOC)

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The Back Office Conversion (BOC) Entry application enables Originators to convert, during back office processing, checks presented by the Receiver for payments made at either the point of purchase or a manned bill payment location. BOC entries are Single-Entry debits and may only be used for non-recurring, in-person payments where there is no standing authorization for the origination of ACH debits to the Receiver’s account.

The rules governing BOC entries define specific eligibility requirements and limits on types of source documents that may be converted. Originators are permitted to convert only those checks in an amount of \$25,000 or less. Further, to enable Originators to readily identify business checks that are ineligible for conversion and exclude those items from ACH conversion, BOC rules require Originators to exclude from conversion any check that contains an Auxiliary On-Us Field within the MICR line.

#### INITIATING A BOC ENTRY — AN OVERVIEW

- Prior to accepting a check at the point of purchase or at a manned bill payment location, the Originator provides the check writer (Receiver) with notice stating that his check may be converted and collected electronically. One way an Originator may meet this requirement is by posting the required notice in a clear and conspicuous location at the point of purchase/manned bill payment location; however, the Originator must also provide the Receiver with
- a take-away copy of the notice language at the time of the transaction.
- The customer presents a check for payment. The Originator retains the check for subsequent processing in the back office.
- In the back office, the Originator determines whether the check is eligible for conversion. If so, the Originator uses a reading device to capture MICR information from the check (i.e., routing number, account number, and serial number), and generates a debit entry to the Receiver’s account.

#### SOURCE DOCUMENTS

The Originator may use an eligible check as a source document for the initiation of a BOC entry if it has been provided to the Originator at either the point of purchase or a manned bill payment location. For a detailed list of eligibility criteria for check conversion entries, refer to the Source Document Eligibility Charts within Appendix E of these Guidelines, or to the definition of Eligible Source Document within Article Eight of the *Rules*.

#### OBLIGATIONS OF ORIGINATORS

##### *Agreements with ODFIs*

An Originator using the ACH Network to convert eligible checks received at the point of purchase or manned bill payment location and collect them as Back Office Conversion Entries should consider modifications to its agreement with its ODFI to address specific issues related to the origination of BOC entries. In addition to being bound to the requirements of the *NACHA Operating Rules* through its ODFI/Originator agreement, an Originator and its ODFI should also address any processing obligations, timing, liabilities, etc., that are unique to the BOC application. These modifications could, for example, address the extent to which the Originator and ODFI share liability for the following warranties as they apply to the origination of BOC entries:

- The ODFI has, prior to originating BOC entries, employed commercially reasonable procedures to verify the identity of each Originator or Third-Party Sender initiating such entries.



- The ODFI has, prior to originating BOC entries, established procedures to maintain the following information with respect to each Originator of such entries:
  - company name;
  - address;
  - telephone number;
  - contact person;
  - taxpayer identification number; and
  - a description of the nature of the business of each Originator.
- The ODFI has established practices and procedures to provide the RDFI with information identifying the Originator of BOC entries within two banking days of receipt of the RDFI's written request for such information, provided the RDFI's written request is received within two years of the Settlement Date of the original entry.
- The Originator has employed commercially reasonable procedures to verify the identity of each Receiver of BOC entries.
- Each Originator of BOC entries maintains a working telephone number that is answered during the Originator's normal business hours for Receiver inquiries regarding BOC transactions. This telephone number must also be displayed on the required notice for BOC entries.
- The amount of the entry, the routing number, the account number, and the check serial number are in accordance with the source document;
- The Originator has retained a reproducible and legible copy of the front of the Receiver's source document for two years from the Settlement Date of the BOC entry.

(Upon receipt of an RDFI's written request, the ODFI must provide such copy to the RDFI within ten banking days. Originators must be prepared to provide copies to their ODFIs for this purpose.)

- The source document to which the BOC entry relates must not be presented for payment unless

the BOC entry is returned by the RDFI. That is, to avoid "double dipping," the check may not be collected through the paper collection system unless the ACH debit is returned by the RDFI. In addition to the RDFI and ACH Operator, this warranty runs to any other party that may be liable on the source document.

- The Originator must employ commercially reasonable methods to securely store (1) all source documents until destruction, and (2) all banking information relating to BOC entries.

### ***Authorization/Notification Requirements***

Originators are required to provide notice to the Receiver, prior to the receipt of each eligible source document that is used as the basis for the origination of a BOC entry, that receipt of the Receiver's check is deemed to be the Receiver's authorization for an ACH debit entry to the Receiver's account, in accordance with the terms of the eligible source document. The check is used solely as the eligible source document for capturing the Receiver's routing number, account number, check serial number, and dollar amount for the entry. The provision of the notice by the Originator to the Receiver and the receipt of the eligible source document together constitute authorization of the BOC entry.

The rules governing BOC incorporate Regulation E safe harbor language into the required notice, requiring that the notice include the following, or substantially similar, language:

"When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction. For inquiries, please call <retailer phone number>."

The requirement to include a retailer's telephone number above is not required as part of the Regulation E safe harbor language but is a requirement of the *NACHA Operating Rules* with respect to the notice obligation.

Regulation E also provides alternative safe harbor notice language, below, that Originators may choose to use for electronic check conversion. Originators using this alternative language also need to include the retailer's telephone number as required by the *Rules*.

“When you provide a check as payment, you authorize us to use information from your check to make a one-time electronic fund transfer from your account. In certain circumstances, such as for technical or processing reasons, we may process your payment as a check transaction.”

Originators are not required to use the safe harbor language discussed above. The actual wording of the notice may be determined at the discretion of the Originator, provided that it is substantially similar to the safe harbor language and includes the retailer's telephone number.

For purposes of Regulation E, electronic check transactions are one-time transfers, which require notice to be provided and an authorization obtained from the Receiver for each entry. As a result, an Originator must provide the Receiver with the required notice discussed above prior to the initiation of each BOC entry. One way an Originator may meet this requirement is by posting the notice (which must be clear and readily understandable) in a prominent and conspicuous location at the point of purchase/manned bill payment location. A notice in small print and buried in the middle of unrelated information, for example, is not considered to be in a prominent and conspicuous location. Originators should consider using headings preceding the notice to draw attention to the information presented to the Receiver. Notices provided on signage should not be obscured by other information or signs that may also be located at the point of purchase or manned bill payment location.

In cases where an electronic device is used, the notice can be displayed on the screen for the Receiver to read prior to providing the eligible source document for conversion. Alternatively, the notice can be provided on an invoice or billing statement that the Receiver can read prior to providing the eligible source document for conversion. Originators should understand that the term “provide” is intended to mean that the Originator has utilized a medium (e.g., written document, tablet, computer screen, or other method) that allows the Receiver to read the notice prior to the Originator's receipt of the eligible source document.

The Originator must also provide the Receiver with a take-away copy of the notice language (or language that is substantially similar) at the time of the transaction.

This notice as authorization is the minimum standard for compliance with the authorization requirements for BOC entries. An Originator may also choose, at its discretion, to obtain a signed, written authorization for a BOC entry, but it is still required to comply with all requirements for notice to be in compliance with Regulation E.

#### *Opting Out of Check Conversion*

At their discretion, Originators may allow Receivers to opt out of BOC check conversion, although the *NACHA Operating Rules* do not require them to do so. Originators that offer an opt-out option to their customers should establish procedures under which a Receiver may notify the Originator, at the point of purchase or manned bill payment location, that a particular check does not authorize an ACH debit entry to the Receiver's account.

#### *Requirements for MICR Capture*

During initial processing of BOC entries, Originators must use a MICR reading device to capture the Receiver's routing number, account number, and check serial number from the MICR line of the Receiver's check (eligible source document). Although this data may not be key entered during initial processing, key entry is permitted, for subsequent correction of errors related to MICR misreads, misencoding, or processing rejects.



Although the *Rules* require an RDFI to accept an ACH transaction that bears information that was accurately obtained from the on-us field of the MICR line of a check, differences in financial institutions' MICR lines may present Originators with challenges in being able to properly parse the MICR line for accurate formatting of a BOC entry. Originators may wish to consider developing databases and using other available MICR resources to facilitate processing of BOC transactions.

## COLLECTION OF RETURN FEES

BOC entries must be originated so that the amount of the entry, the routing number, the account number, and the check serial number accurately reflect the source document. No fees of any type may be added to the amount of the source document when it is transmitted as a BOC entry.

An Originator desiring to use the ACH Network to collect a Return Fee from a Receiver must originate a separate Return Fee Entry using the appropriate Standard Entry Class Code and must follow all rules governing the origination of Return Fee Entries. For specific information on Return Fee Entries, please refer to Chapter 54 in the Special Topics section of these Guidelines.

Originators need to be aware that the requirements of the *NACHA Operating Rules* regarding the origination of Return Fee Entries are in addition to any requirements defined by applicable state law governing Return Fees. Originators are responsible for determining what the applicable state laws are, if any, for each of their check-accepting locations that intend to, or may, use the ACH Network for the collection of Return Fees.

## VERIFICATION OF RECEIVER'S IDENTITY

To minimize the potential for Receiver fraud, the Originator must use a commercially reasonable procedure to verify the Receiver's identity prior to originating a BOC entry. Examples of commercially reasonable means of verifying the Receiver's identity include, but are not limited to, the examination of a photo identification (e.g., driver's license, passport, other photo ID), use of a retailer preferred card, check verification services,

etc. (For more information on the concept of commercially reasonable standards, please refer to Chapter 4 of these *Guidelines*.)

Originators should be aware that if the source document is fraudulent, the BOC entry upon which it is based is likely to be returned as unauthorized, no account found, other reasons, just as the source document, if processed as a check, would likely to be returned.

## RETAILER TELEPHONE NUMBER

Originators are required to establish and maintain a working telephone number for Receiver questions or inquiries regarding BOC entries. The person answering this telephone number must be capable of supporting and responding to questions about specific BOC entries to a Receiver's account and not limited to the provision of general information about the Back Office Conversion application.

## RETENTION/SECURE STORAGE OF SOURCE DOCUMENTS AND PAYMENT INFORMATION

Each Originator of BOC entries is required to retain a reproducible, legible image or other copy of the front of the Receiver's source document for a period of two years from the Settlement Date of the entry. Originators may also choose, at their discretion, to retain a copy of the back of the Receiver's source document. The Originator must be prepared to provide such a copy to the ODFI, as the ODFI is required to send a copy of the front of the source document to the RDFI within 10 banking days of receipt of a written request for such copy by the RDFI, provided that the RDFI's written request is received by the ODFI within two years of the settlement date of the BOC entry.

The *Rules* do not explicitly require an Originator to destroy the source document to which the BOC entry relates. Although an Originator may use its discretion in determining how long to retain the original source document, Originators are encouraged to establish policies and procedures to destroy BOC source documents as soon as is reasonable to protect against the risk of fraud or erroneous entry of the check into the check processing system. Until such time that the source

document is destroyed by the Originator, it must be securely stored using commercially reasonable methods.

The *Rules* also require Originators to use commercially reasonable methods to securely store all banking information related to the BOC transaction. Banking information includes, but is not limited to, an entry, entry data, a routing number, an account number, PINs and other identification symbols, etc.

Although the *NACHA Operating Rules* do not otherwise address data security with respect to the secure storage of banking and related information, such requirements may be governed by state or Federal laws and regulations. Originators should be familiar with any such laws when determining the commercial reasonableness of their storage methods.

When choosing a commercially reasonable method for secure data storage, Originators should consider the following guidance provided by the Federal Trade Commission for complying with the Safeguards Rule, which implements security measures within the Gramm-Leach-Bliley Act.

- know where sensitive information is stored and that it is stored securely;
- ensure that only authorized personnel have access to sensitive data;
- ensure that storage areas are protected against destruction or damage from physical hazards such as fire or floods;
- store records in a room or cabinet that is locked when unattended;
- when information is stored on a server or other computer, ensure that the computer is accessible only with a strong password and that it is kept in a physically-secure area;
- avoid storing sensitive information on an electronic device with an Internet connection;
- maintain secure backup records and keep archived data secure by storing it off-line and in a physically-secure area;

- maintain a careful inventory of the company's electronic devices and of the storage location of any other sensitive information.

When destroying BOC source documents or other banking information, Originators should establish reasonable measures for destroying such information that may include:

- burning, pulverizing, or shredding papers that contain such information so that the information cannot be read or reconstructed;
- the use of an outside disposal company that has been certified by a recognized industry group;
- the destruction and/or erasure of data when disposing of computers, disks, CDs, magnetic tapes, hard drives, laptops, smartphones, cell phones, or any other electronic media or hardware containing banking information.

## FORMATTING REQUIREMENTS

- *Dollar Amount* – BOC entries must be originated for amounts of \$25,000 or less.
- *Company Name* – Originators must ensure that the name of the Originator (that is, the payee of the source document) or the payee name indicated on the bill or invoice appears within the Company Name Field of the Company/ Batch Header Record of the BOC entry. The contents of this field are provided to the Receiver for descriptive purposes by the RDFI, and must be formatted in such a manner that enables the Receiver to easily recognize the Originator (e.g., a trading as or doing business as name, etc.). Originators should be aware that the Receiver looks for a familiar name to identify the transaction; if the Receiver does not recognize the Company Name as presented on his statement, the Receiver may instruct his RDFI to return the transaction as unauthorized.
- *Check Serial Number* – The check serial number of the source document to which the BOC entry relates must be placed within the Check Serial Number Field of the BOC Entry Detail Record.

The *Rules* permit Originators to place **only** the check serial number within the Check Serial

Number Field of the BOC Entry Detail Record. That is, the word “check,” abbreviations such as “ck” or “chk,” or other merchant codes must not be included within the field. Because the Check Serial Number Field is defined as an alphanumeric one, the *Rules* require information within this field to be left justified and space filled. The serial number of the check must begin in the leftmost position of the Check Serial Number field, and any unused spaces within the field must be left blank.

Therefore, for check 1234:

CORRECT	1234
INCORRECT	0001234
	000000000001234
	CK# 001234
	CK1234
	1234 6532986002
	CK1234 48832817

Originators should be aware that the *Rules* require RDFIs to print the check serial number on the Receiver’s bank statement for both consumer and business Receivers.

- *Individual Name/Receiving Company Name*  
– The inclusion of the Receiver’s name within the Individual Name/Receiving Company Name Field of the BOC Entry Detail Record is optional at the discretion of the Originator. If the Originator chooses to utilize this field, it must include either (1) the Receiver’s name, or (2) a reference number, identification number, or code that the merchant uses to identify a particular transaction or customer. (NOTE: When a reference number, identification number, or code is used to identify the transaction or customer, it should be uniquely related to the Receiver or transaction. A generic description is not an acceptable means to identify the Receiver or the transaction.)

## REINITIATION OF BOC ENTRIES

BOC entries that have been returned for insufficient or uncollected funds may be reinitiated up to two times following the return of the original entry, provided that such reinitiations are transmitted

by the Originator (or its ODFI on the Originator’s behalf) within 180 days of the settlement date of the original entry.

For BOC entries returned for any other reason, the Originator must first remedy the reason for the return before reinitiating the entry within the 180-day time period discussed above.

## RETURN OF BOC ENTRIES

BOC entries are governed by the same Return Reasons and Return Reason Codes as other ACH debit entries (a complete listing of Return Reason Codes can be found within Appendix Four of the *NACHA Operating Rules*). In addition, some special circumstances can apply, as described below.

### *Return by ACH Operator*

BOC entries are limited to dollar amounts of \$25,000 or less. Any BOC entry originated in an amount greater than \$25,000 will be returned by the ACH Operator.

### *Return by RDFI*

Most BOC entries need to be returned by the RDFI 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 BOC entry.

In the following circumstances, an RDFI may also return a BOC entry so that it is made available to the ODFI by opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry for the following reasons: 1) no notice was provided to the Receiver that the check was going to be converted to an ACH debit, 2) improper source document, 3) the source document was presented for payment as a check through the check collection system, or 4) the BOC transaction was initiated in an amount other than that indicated on the source document. In these five circumstances, the RDFI requires the Receiver to sign or similarly authenticate a written statement of unauthorized debit prior to being re-credited for the transaction.

*Returns for Improper Source Documents or When Both BOC Entry and Source Document Have Been Presented*

With respect to BOC entries based on improper source documents or where both the BOC entry and the source document have been presented for payment, an RDFI may return such entries in either of two ways:

1. An RDFI that determines that a BOC entry was based on an improper source document, or that the entry and the source document were both presented for payment, may return the entry using Return Reason Code, R39 (Improper Source Document/Source Document Presented for Payment). Entries returned using this return reason code must be received by the RDFI's ACH Operator's deposit deadline for the return entry to be made available to the ODFI no later than opening of business on the second banking day following the Settlement Date of the original entry. No written statement of unauthorized debit is required for this code.
2. When the Receiver, rather than the RDFI, as discussed above, determines that the source document to which a BOC entry relates was improper or that the entry and the source document were both presented for payment, the RDFI may return the entry so that it is made available to the ODFI by the opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry using Return Reason Code R10 or R37, respectively. A written statement of unauthorized debit is required when using this return reason code.

*Stop Payments*

As with other Single-Entry ACH transactions, a Receiver desiring to place a stop payment order on a BOC entry may do so, provided that he notifies his RDFI in such a time and manner that allows the RDFI a reasonable opportunity to act on the stop payment order prior to acting on the debit entry. BOC entries returned by the RDFI as payment stopped will bear the Return Reason Code R08 and will be made available to the ODFI by opening of business on the second banking day following the settlement date of the BOC entry.

Originators should note that the RDFI may also return a BOC entry if the Receiver places a stop payment on the source document (i.e., in the check stop payment system) instead of the ACH stop payment system. In this situation, the RDFI must transmit the return using Return Reason Code R38 (Stop Payment on Source Document) so that it is made available to the ODFI by the opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry. This time frame allows a "safety net" for RDFIs that have not linked their check and ACH systems to check for stop payment orders for this application. A written statement of unauthorized debit is not required for this return reason.

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CHAPTER 39

**Corporate Credit or Debit and  
Corporate Trade Exchange  
Entries (CCD & CTX)**

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Corporate Credit or Debit (CCD) and Corporate Trade Exchange (CTX) Entries are debit or credit entries used to facilitate business-to-business (B2B) ACH payments. Although these ACH options move money between business accounts in the same way, they are distinguished by the ability of the Originator and Receiver to exchange various amounts of remittance information.

- **Corporate Credit or Debit (CCD)** – The CCD application can be either a buyer-initiated or seller-initiated transaction used to move funds between the buyer's and seller's financial institution accounts. It is also used by companies to move funds from outlying depository locations to a central bank account. This format may be used as a stand-alone payment instruction for funds transfer, with no remittance detail included. Companies use the CCD format when there is no need to exchange remittance information, such as paying a single invoice.

Companies that need to transmit remittance data with the CCD entry may add an addenda record to carry the payment related information.



The addenda record carries 80 characters of payment related information, which must be formatted using ANSI ASC X12 data segments or a NACHA-endorsed banking convention. The addenda record may also be used to reference a separate transmission of remittance information that flows outside of the ACH Network. The CCD plus addenda (also known as a CCD+ entry) is typically used to pay a single invoice that is identified in the addenda record. It may also be used for multiple invoices, providing a reassociation reference number for the source of the remittance data.

- **Corporate Trade Exchange (CTX)** – The CTX application is also a buyer-initiated or seller-initiated transaction used to move funds between the buyer's and seller's financial institution accounts. The CTX format supports the transfer of extensive addenda records - up to a maximum of 9,999 records each carrying 80 characters of payment related data - along with the transfer of the payment. Remittance information within CTX addenda records must be formatted as either a syntactically correct ANSI ASC X12 transaction set or as a payment related UN/EDIFACT transaction. The CTX format is typically used to pay multiple invoices that are listed in the addenda records, although it may be used for a single invoice.

## LEGAL FRAMEWORK

In addition to the applicable *NACHA Operating Rules*, wholesale credit transactions transmitted as CCD or CTX entries are governed by Article 4A of the Uniform Commercial Code. As they are not consumer entries, they are not subject to Regulation E.

## BUSINESS-TO-BUSINESS PAYMENTS

The ACH offers a number of special features for business payments. By using ACH electronic payments for accounts payable and accounts receivable functions, businesses can realize significant cost-savings and processing efficiencies.

- *Data and Dollars Together:* The ACH Network can carry both payment and remittance data. The remittance data provides information

that the biller uses to post the payment. When remittance data needs to accompany a payment, the type of remittance data, along with the appropriate format (in accordance with the *Rules*), is specified by the seller and communicated to the buyer in advance of the transaction.

- *Lower Payment and Remittance Processing Costs:* The initiation of payments and processing of data electronically removes many of the personnel expenses required to handle paper remittances (i.e., salaries and overtime staffing during peak periods), as well as the costs associated with paper storage and handling, such as opening envelopes, manually crediting the account, and depositing payments.
- *Improved Data Accuracy:* The ability to carry data and dollars together eliminates misrouted remittances (there is an audit trail for all ACH transactions) and delays from bill stubs received without a check, or checks received without a bill stub. In addition, many ACH processors have integrated sophisticated methods to verify account numbers, further reducing the possibility of errors.
- *Accelerated Cash Flow:* The receipt of ACH payments makes cash flow and forecasting more predictable, eliminates receiving checks by mail and reduces clearing float. For customers that initiate credit payments, funds are immediately available to the biller.
- *Flexibility:* The ACH Network allows both credit and debit payment options, and can be used in any bill payment receivables channel. An ACH solution is also widely available, and scalable, allowing for adoption by both smaller and larger businesses and customers.

## CASH CONCENTRATION AND DISBURSEMENT

Cash concentration and disbursement are cash management techniques used by companies with remote locations to effectively manage funds. Cash concentration consolidates all available funds in a single account. Disbursement is controlled so

that cash can be fully invested during the day and funding requirements for checks can be met. Cash concentration and disbursement help improve the flow of cash, reduce excess balances and increase interest earned. The ACH Network provides companies with a quick and cost-efficient means for cash concentration.

## OBLIGATIONS OF ORIGINATORS

### ***Agreement with ODFI***

An Originator using CCD/CTX entries should consider modifying its agreement with its ODFI to address specific issues related to the origination of these entries. In addition to being bound to the requirements of the *NACHA Operating Rules* through its ODFI/Originator agreement, the agreement should address any formatting requirements, processing obligations, warehousing, timing, etc. that are unique to CCD/CTX entries.

### ***Agreement with Receiver***

With business-to-business payments, ACH transactions originated by a buyer are credit transactions because the buyer (the party that owes funds) “pushes” funds to the seller’s (party that is owed the payment) account. ACH transactions originated by a seller are debit transactions because the seller “pulls” funds from the buyer’s account.

As with all ACH transactions, the Originator of a CCD or CTX entry must receive the Receiver’s authorization to debit or credit the Receiver’s account. The *NACHA Operating Rules* do not require the CCD/CTX authorization to be in a specific form. However, the rules require the Originator and Receiver to have an agreement that binds the Receiver to the *Rules*. This trading partner agreement should contain the authorization requirements and procedures as determined by the parties; the companies negotiate the terms.

In some instances a seller may have specialized data remittance requirements for an electronic credit payment (e.g., specific data elements and formats) and/or may require that remittance be sent through a specific channel (e.g., the ACH, or a private remittance network — sometimes referred to as a value-added network). If the buyer is unable to meet the exact specifications for making a credit

ACH payment, it is possible that the seller will not be able to post the payment correctly, meaning the buyer’s account will not be properly credited. The seller may, therefore, only allow the buyer to originate a credit ACH payment once the buyer agrees to the remittance requirements. As above, the terms of the agreement would be dictated by the trading partner agreement.

Sellers and buyers should discuss special payment requirements prior to conducting business. The range of payment terms and conditions should be covered in their trading partner agreement.

The agreement will also specify the manner in which dispute resolution will be handled.

## RETURN OF CCD/CTX ENTRIES

CCD and CTX entries are governed by the same return reasons and Return Reason Codes as other ACH debit entries. Most CCD/CTX entries need to be returned by the RDFI 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 CCD/CTX entry.

If an RDFI receives written notification from a Receiver after the time for return has expired that a CCD or CTX debit entry to the Receiver’s account was not authorized by the Receiver, the RDFI may transmit a permissible return entry to the ODFI, provided that the ODFI has agreed, either verbally or in writing, to accept the late return entry. Such a return must be transmitted using Return Reason Code R31 (Permissible Return Entry).

At times, Originators may erroneously transmit ACH entries that are formatted using an incorrect SEC Code. This is in violation of the *NACHA Operating Rules*. The *Rules* allow the RDFI to rely on the ODFI’s warranty that the SEC Code included in the entry is proper and obligates the RDFI to use the return rules and time frames associated with that particular SEC Code.

However, for an unauthorized debit to a consumer account that bears a corporate SEC Code (i.e., CCD or CTX), the RDFI may be unable to meet the time frame for return because the return time frame



for corporate entries may have lapsed before the consumer can receive his statement and notify his RDFI about the unauthorized debit to his account. In order to enable the RDFI to treat all unauthorized debits to consumer accounts in a consistent manner, regardless of SEC Code, the *NACHA Operating Rules* define a specific Return Reason Code R05 (Unauthorized Debit to Consumer Account Using Corporate SEC Code) that the RDFI may use to return unauthorized entries to a consumer account that bear a corporate SEC Code. Returns bearing Return Reason Code R05 must be transmitted by the RDFI in such time and manner that the return is 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.

***A complete listing of Return Reason Codes can be found within Appendix Four of the NACHA Operating Rules.***

## CORPORATE ACH PAYMENT TRANSACTION FLOW

### ***Buyer-Initiated Payments: Credit Model – Data and Dollars Together***

The process flow for a buyer-initiated payment when remittance data is included with the payment (data and dollars together) is shown in Figure 39-1.

#### ***Payment Initiation***

1. The buyer and the seller may enter into a trading partner agreement that establishes authorization for ACH payment. The seller must provide the buyer with the bank routing number of its financial institution and depository account number or electronic lockbox account number. This information is used to route the ACH payment to the seller. Typically, the seller notifies the buyer about the desired data requirements and ACH format in the trading partner agreement.

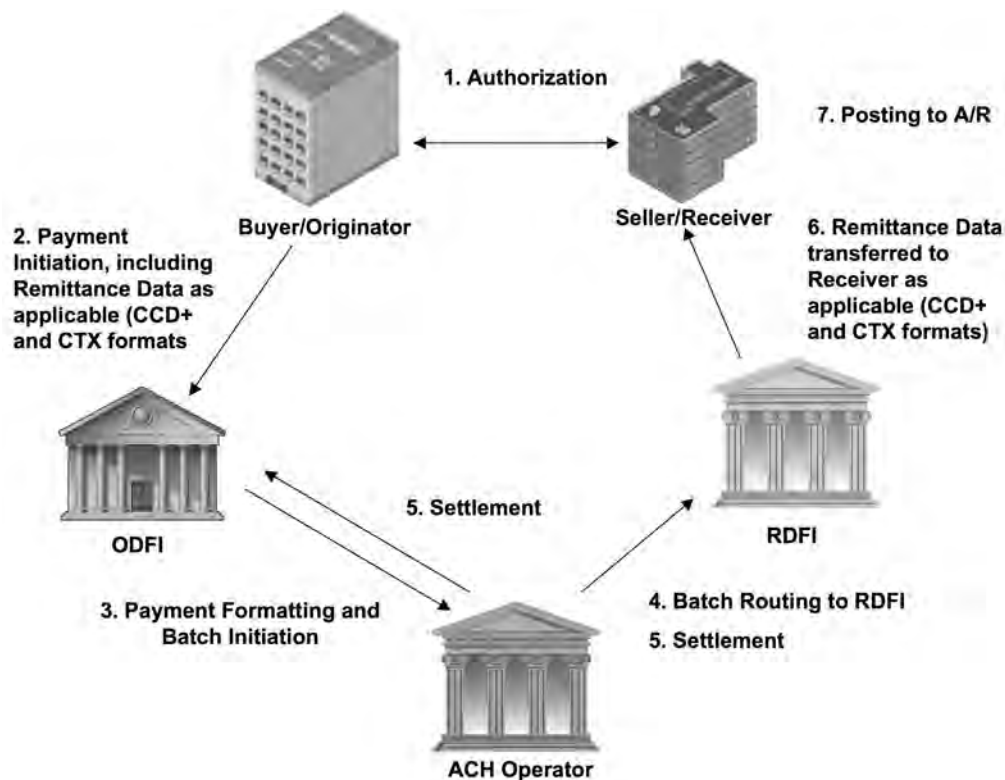


FIGURE 39-1

2. The buyer, who is the Originator of the ACH transaction, initiates an ACH credit through its financial institution, the ODFI. The buyer uses the payment and remittance format agreed to with the seller.
3. The ODFI formats the payment and remittance data per the Originator's instructions, or uses formatted data provided by the Originator, and sends the ACH transaction to the ACH Operator in a batch transmission one to two days prior to the desired Settlement Date.
4. The ACH Operator sorts and batches ACH transactions for the appropriate RDFIs and transmits the ACH transaction in a batch to the RDFI by the Settlement Date.

#### Settlement

5. The ODFI debits the buyer's/Originator's account. The ACH Operator debits the ODFI and credits the RDFI. The RDFI credits the seller's/Receiver's account on the Settlement Date for the amount of the payment.

#### Remittance

6. Remittance data, which is generated by the buyer in step 2 above, is provided by the RDFI to the seller in the format agreed to by the seller and the RDFI in their contract. Remittance data, accommodated in either the CCD or CTX addenda records, contains the information necessary for the seller to accurately update its accounts receivables.
7. The payment is posted to the seller's accounts receivable system.

#### **Buyer-Initiated Payments: Credit Model – Data and Dollars Separate**

While standardized remittance data can accompany a CCD or CTX payment, buyers sometimes convey it using other networks or methods. This is known as the data "re-association model" (or data and dollars separate), where the Receiver (seller) receives payment through the ACH, but must re-associate the payment with the correct remittance information coming from another source, such

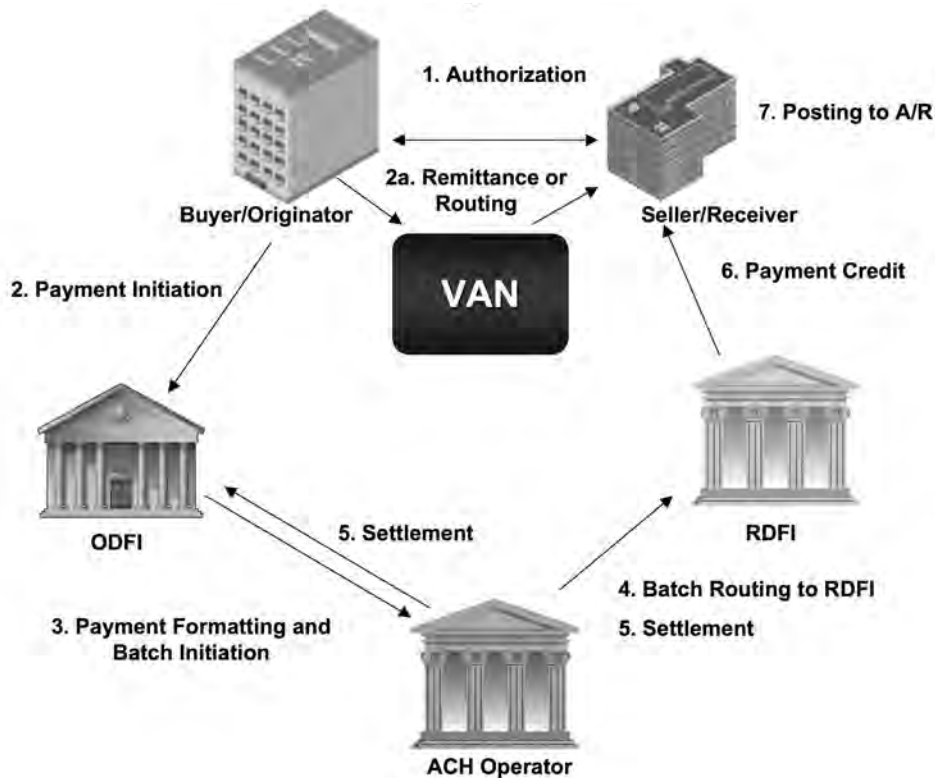


FIGURE 39-2

as a value added network (VAN). This method requires the Receiver to have an identifier that can associate the payment with the remittance for proper reconciliation in the accounts receivable system. See Figure 39-2.

Payment initiation and settlement occur similar to the data and dollars together credit model above. The difference between these buyer initiated payment models is how remittance data flows to the seller (2a). In the re-association model, where data and dollars are separate, the buyer sends remittance data (per the seller's specifications) to a VAN, which then routes the data to the seller. The seller then has to re-associate, or reconcile, the payment credit with the remittance data.

### ***Seller-Initiated Payments: Debit Model***

Seller-initiated corporate ACH transactions are debit transactions. When the seller initiates an ACH debit, the seller is the Originator of the ACH transaction and the buyer is the Receiver. The seller debits the buyer's account for the amount of payment due on an agreed upon date. Figure 39-3 illustrates this model.

#### ***Payment Initiation***

1. Similar to buyer-initiated ACH transactions, the use of ACH debit as the payment method is typically preauthorized in a trading partner agreement established between the buyer and seller. At a minimum, the buyer must provide the seller with the ABA number (i.e.; the bank

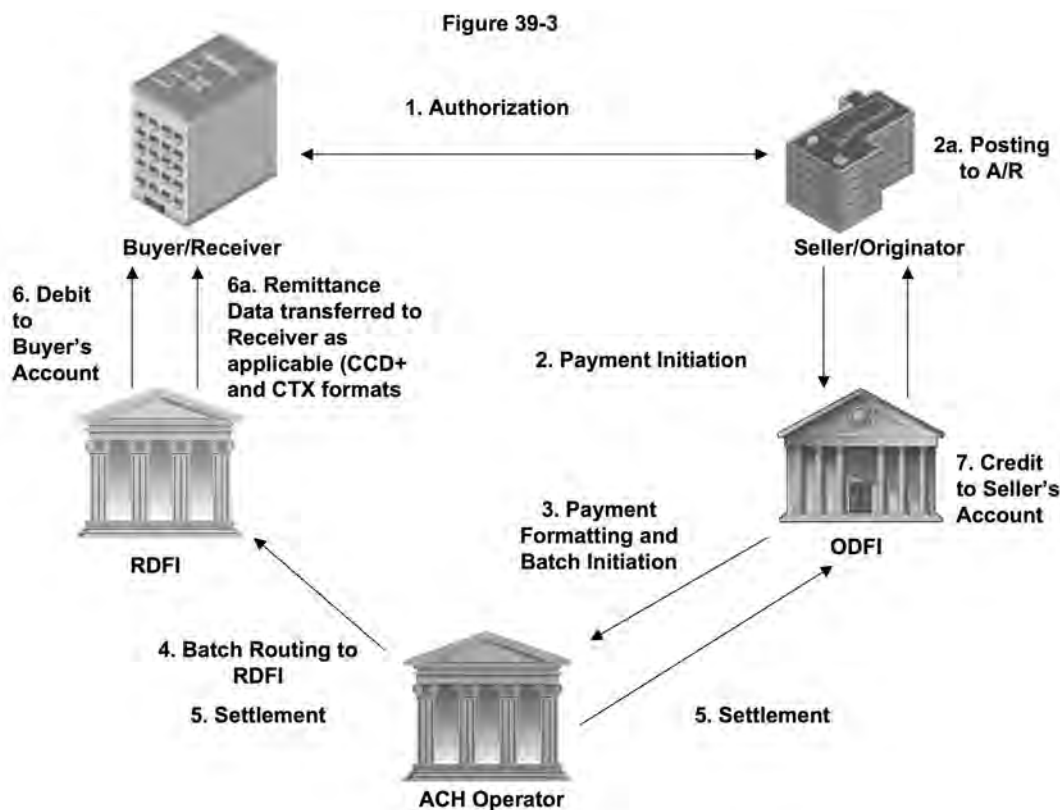


FIGURE 39-3

routing number) of its financial institution and its depository account number. This information is used by the seller to debit the buyer's account. The seller may issue a prenote in advance of the first live transaction to ensure the accuracy of the buyer's account information.

2. The seller, which is the Originator of the ACH transaction, initiates an ACH debit by sending debit instructions through its financial institution, the ODFI. The seller must use the format agreed to with the buyer in the trading partner agreement. This is typically a CCD format because the seller generally does not require any remittance data when it initiates the payment by debiting the buyer's account (although a CTX entry could be used). CCD debits can be initiated by the seller using information from its accounts receivable system.
- 2a. The seller posts the payment to its accounts receivable system based on initiation of the ACH debit.
3. The ODFI formats the ACH debit per the Originator's instructions (or uses formatted data provided by the Originator) and transmits the ACH transaction to the ACH Operator in a batch transmission one day prior to the desired Settlement Date.
4. The ACH Operator sorts, batches, and transmits the ACH transactions to the appropriate RDFIs.

#### *Settlement*

5. The ACH Operator credits the ODFI and debits the RDFI in the amount of the payment.
6. The RDFI debits the buyer's, or Receiver's, account on the Settlement Date.
- 6a. In some cases, the RDFI provides remittance data to the buyer.
7. The ODFI credits the seller's, or Originator's, account with the ACH payment amount on the Settlement Date.

#### *Remittance*

In a seller-initiated ACH transaction, the seller is initiating an ACH debit solely for payment collection purposes. Typically, the seller has the remittance information required to accurately post the payment. The CCD format is typically used for seller-initiated ACH debit transactions. If the seller is collecting for multiple invoices or needs to document disputed line items, they may use a CTX or CCD plus addenda to relay the remittance information to the buyer as noted in step 6a.

### **REMITTANCE CAPABILITY**

Both CCD and CTX entries can carry payment and remittance data together. However, when remittance information is not required, the CCD format without an addenda record is typically used. When it is necessary for remittance data to accompany a payment, the type of remittance data, along with the appropriate format, is specified by the seller and communicated to the buyer in advance of the transaction.

A CCD entry is limited in the amount of remittance data it can carry. Each CCD entry can accommodate one optional addenda record with a maximum of 80 characters of payment related information. A CTX entry can accommodate up to 9,999 optional addenda records each carrying 80 characters of payment related information, but the formats allowed in the addenda are restricted to certain standards. In CCD and CTX applications, the information contained in the remittance addenda record is typically used for applying payment related information.

While the B2B ACH payment vehicles—CCD and CTX—vary in the provision of remittance data, they are consistent in providing certain payment related information, such as payment amount and payment date.

### **ADDENDA RECORDS**

Addenda records may use American National Standards Institute (ANSI) Accredited Standards Committee (ASC) X12 transaction sets and data segments to relay payment related information. The CCD addenda record can carry payment related

ANSI ASC X12 data elements or data segments only, while the CTX addenda records can carry a full payment related ANSI ASC X12 transaction set (i.e., one that contains a BRP or BPS data segment) or payment related UN/EDIFACT syntax.

The ANSI ASC X12 transaction sets that contain valid BPR/BPS data segments are:

- 103 Abandoned Property Filings – the 103 Transaction Set
- 521 Income or Asset Offset – the 521 Transaction Set
- 813 Electronic Filing of Tax Return Data – the 813 Transaction Set
- 820 Payment Order/Remittance Advice – the 820 Transaction Set
- 823 Lockbox – the 823 Transaction Set
- 835 Health Care Claim Payment/Advice – the 835 Transaction Set

The *NACHA Operating Rules* do not specify which version of the ASC X12 standards should be used. However, the examples, definitions, and ASC X12 standards discussed in this chapter are derived from the version release 5010 of the ASC X12 Standards manual. For more information on basic X12 rules, see Appendix J of these *Guidelines*.

Entries using the CCD format may also use NACHA-endorsed banking conventions to convey payment related information within the addenda record.

***To receive information on NACHA endorsed banking conventions, please visit [www.nacha.org](http://www.nacha.org).***

Although this chapter refers to the ANSI ASC X12 Interchange Control Structure (ANSI ASC X12.5), the ANSI ASC X12 Application Control Structure (ANSI ASC X12.6), UN/EDIFACT payment related syntax, and the transaction sets shown above, it does not discuss these standards in detail.

***To receive additional information about ASC X12 or UN/EDIFACT payment related syntax,***

***or to obtain a copy of the X12 Standards, please contact the Data Interchange Standards Association (DISA) [www.disa.org](http://www.disa.org).***

### ***Preparing the CCD Addenda Record***

A CCD entry may relay remittance information using the “05” addenda record. Only one addenda record may accompany each CCD entry. The addenda record includes 80 characters of payment related information.

Users of this payment format may insert any NACHA-endorsed banking convention (i.e., child support, tax payment, or electronic dealer drafting), or up to 80 characters of any combination of payment related ANSI ASC X12 data segments and data elements — that is any combination of data segments and data elements from the specific transaction sets identified above. Data segments from other standards are not permitted in the addenda record.

An asterisk (“\*”) must be used as the separator (or “delimiter”) between data elements, and the backslash (“\”) (referred to as the “terminator”) must be used to indicate the end of a data segment.

### ***Preparing the CTX Addenda Record(s)***

A CTX entry relays remittance information using the ASC X12 Interchange Control Structure, Application Control Structure, ANSI ASC X12 transaction sets containing a BPR or BPS data segment (see list above), or payment related UN/EDIFACT syntax. The addition of one or more addenda records to the entry detail record allows a corporation to transmit payment related information; however, the presence of an addenda record is not mandatory with CTX entries.

- For CTX entries there is a limit of 9,999 addenda per ACH payment.
- Only the ASC X12 Interchange Control Structure (ANSI ASC X12.5), Application Control Structure (ANSI ASC X12.6), ANSI ASC X12 transaction sets containing a BPR or BPS data segment (see above), or payment related UN/EDIFACT information are permitted in the CTX addenda record.



- For CTX entries that use multiple addenda records, the addenda are, in effect, chained together with each succeeding addenda record carrying the next 80 characters of the message.
- An addenda sequence number is provided in the addenda record. The sequence number is “0001” for the first addenda record. Each succeeding addenda must contain a number greater than the previous addenda.
- Standards developed by the ASC X12 are developed for computer processing and are not easily readable by human operators, since codes are often used to relay information.
- The format of the ASC X12 message within the addenda records is referred to as “enveloping” since it is comparable to placing a message within an envelope and attaching it to a payment as it flows through the system.

Preparing CTX addenda records requires the preparation of a file of ASC X12 formatted information.

***Refer to Appendix J within these Guidelines for a discussion on Basic ASC X12 rules, and to the Data Interchange Standards Association (DISA) at [www.disa.org](http://www.disa.org) for complete information on X12 requirements.***

The Originator may either prepare the CTX entries itself or pass the X12 information to its financial institution to prepare the ACH file, depending on the agreement that the Originator has with its ODFI. Any editing or formatting of transaction information done by the ODFI can be considered a value-added service performed by that organization.

CTX entries may be produced by scanning the information in the ASC X12 message. From the information contained in the data segments, the NACHA record formats can be constructed.

#### ***Addenda Information and Zero Dollar Entries***

Corporate payments may carry a dollar value or no dollar value. In the case of a dollar value entry, a dollar amount greater than zero is transmitted with the remittance detail. In the case of a non-

monetary entry, an amount of zero is placed in the amount field of the entry indicating that the value of the transaction is zero; however, remittance information is carried in the addenda to support the zero dollar payment. Zero dollar payments with remittance can be treated similarly to dollar payments in that they can be coded as debits or credits to savings or demand accounts. Typically, zero dollar payments are embedded in an ongoing application where the transactions usually have value; however, for a particular time period, such as in the tax or health care industries, no funds are owed.

A zero dollar entry can also be transmitted through the ACH as a pre-advice, where remittance detail is transmitted from the Originator to the Receiver prior to the actual payment. This process allows any problems with the remittance detail to be worked out prior to the flow of funds. A zero dollar transaction can be transmitted with both CCD and CTX entries.

#### ***Compression of the Data***

Once the record formats are constructed, the X12 message is then divided into 80-character segments and inserted within the addenda records. The Payment Related area of the addenda should be fully utilized by “compressing” the ASC X12 data. Compression is a procedure in which one segment immediately follows the preceding segment. If a data segment is longer than eighty characters, the payment related field of the first addenda record is completely filled and the data is “wrapped” to the payment related field in the next addenda record. (Fourteen characters of the addenda record contain the tracking and control information needed for ACH processing.) A maximum of 9,999 addenda records may be generated for any one CTX message, allowing a message totaling nearly 800,000 bytes.

#### ***Delimiters, Terminators, and Version Release***

For CTX payments, the ASC X12 structure allows the originator flexibility in selecting delimiters, terminators, and the Version Release Control Number. The value of these elements will be defined in the ISA segment (see Appendix J on Basic ASC X12 Rules in these *Guidelines*) and will be chosen by agreement between the Originator



and Receiver. Corporate users should note that delimiters and terminators must be contained in the NACHA data character set (EBCDIC characters with a value greater than hexadecimal “3F” and ASCII characters with a value greater than hexadecimal “1F”). Communication control characters, those characters with an EBCDIC value of “3F” or less or an ASCII value of “1F” or less, interfere with the processing systems of ACH Operators and RDFIs and cannot be used.

By combining payments with Electronic Data Interchange payment information, corporations enjoy many benefits. The combination of payment and payment information allows the corporation to apply this information in an automated manner upon receipt rather than manually reconciling the data and dollars. In general, Electronic Data Interchange provides a basis for complete end-to-end automation of order entry information.

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## CHAPTER 40

### Customer-Initiated Entries (CIE)

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A Customer-Initiated Entry (or CIE entry) is a credit entry initiated on behalf of, and upon the instruction of, a consumer to transfer funds to a Receiver. CIE entries are usually transmitted to a company for payment of funds that the consumer owes to that company and are initiated by the consumer through some type of online banking product or bill payment service provider. With CIEs, funds owed by the consumer are “pushed” to the biller in the form of an ACH credit, as opposed to the biller’s use of a debit application (e.g., PPD, WEB) to “pull” the funds from a customer’s account.

This chapter provides an overview of the fundamentals of the CIE application and its use in the bill payment environment. Topics include basic explanations of various CIE bill payment models, risks related to CIE usage, and best practices for minimizing exception processing in the bill payment arena.

### UNDERSTANDING CIE BUSINESS MODELS

Once consumers authorize payments from an online banking application, payments to billers can be made using several different models. For example, payments made at online banking sites can be transmitted to billers through the ACH Network, through other payment networks, or even by check. The specific payment method chosen can depend on the

- use of a third-party to provide a financial institution’s online banking service;
- risk profile of the payer and/or the risk tolerance defined by the payee;
- electronic receivables services provided to the biller; and
- ability for the consumer financial institution/third party service provider to send the payment electronically to the biller.

The discussion below describes common process flows for bill payments transmitted through the ACH Network from online banking applications.

#### ***Financial Institution as Bill Payment Provider***

In this model, a financial institution operates its own bill payment system and is able to originate ACH payments. See Figure 40-1. The financial institution’s consumer customer authorizes a payment through the FI’s online banking application, and the consumer’s financial institution transmits a credit to the biller’s (i.e., the Receiver’s) financial institution using the CIE format. (Note: The consumer’s financial institution will often rely on a third party to obtain payment routing instructions for billers.) Once the CIE credit is received, the RDFI credits the biller’s account, and passes the payment remittance information (i.e., the customer’s account number with the biller and the payment amount) to the biller. The biller then credits the consumer’s account.

1. Originator (consumer) approves the payment amount to the biller in an online banking application.

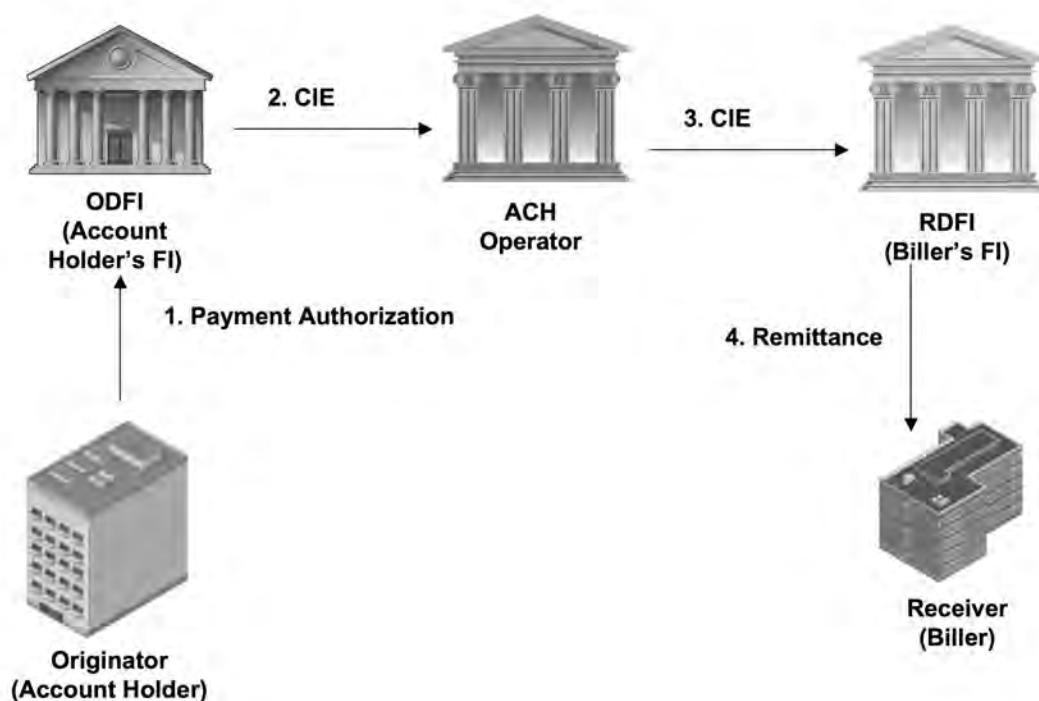


FIGURE 40-1

2. ODFI (consumer's bank) originates the CIE to the biller's financial institution.
3. RDFI (biller's bank) receives CIE, and credits biller's (Receiver's) account with RDFI.
4. Biller (Receiver) receives remittance data and credits consumer's account with biller.

### ***Third Party Service Provider as Bill Payment Provider***

In this model, shown in Figure 40-2, a financial institution uses the services of a Third-Party Service Provider (TPSP) to support bill payment for its online banking platform. This model also applies to third-party bill payment providers that offer bill payment services that are not associated with an online banking service. In these cases, the bill payment service is usually provided through a portal or non-bank website.

In this scenario, the consumer's financial institution is a passive party to the transaction. This means that the consumer may log-in and access his financial institution's online bill payment service,

but the bill payment service is actually operated by a TPSP. Once the consumer approves a payment from the online banking application (or portal), the TPSP's own financial institution (rather than the consumer's financial institution) will first debit the consumer's account at his financial institution (using a WEB or PPD transaction) and then transmit a CIE credit to the biller's financial institution (similar to the financial institution bill payment provider model described above). With this model, two separate ACH transactions are required to complete the consumer's payment instruction.

As an alternative to transmitting a CIE credit to the biller on the consumer's behalf, the TPSP may effect payment to the biller through other methods, depending on the services provided to the consumer's financial institution and the biller's preferences for payment delivery. In lieu of transmitting the payment to the biller through the ACH, the TPSP may choose to use another payment network, or it may even send a check if the TPSP's financial institution does not have electronic routing information for a particular biller.

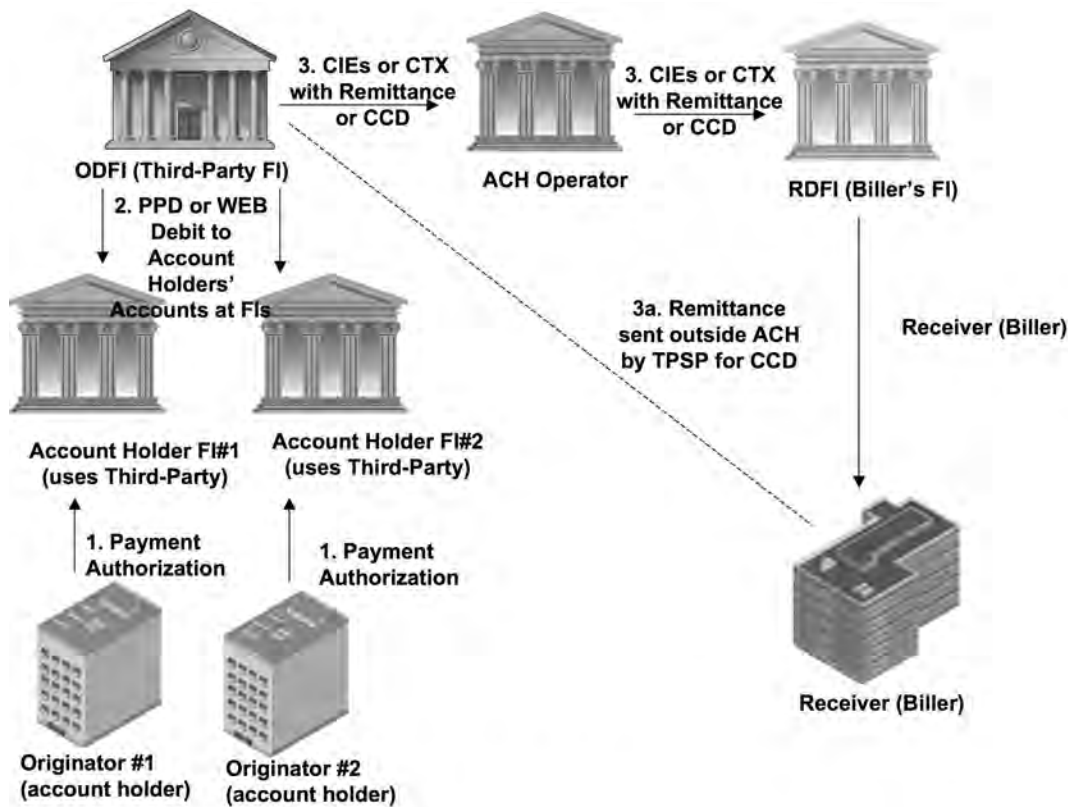


FIGURE 40-2

1. Originator (consumer) approves the payment amount to a biller using an online banking application or portal service. (Note: The consumer's financial institution has contracted with a TPSP to operate the FI's online banking service. The TPSP has a separate relationship with another (the TPSP's own) financial institution to originate and receive ACH transactions.)
2. ODFI (TPSP's FI) debits the consumer's account at the consumer's FI by transmitting a PPD or WEB debit.
3. ODFI (TPSP's FI) originates a credit to the biller for multiple consumer payments using an individual CIE for each payment, or the payments may be bundled into a CTX transaction with the remittance details in accompanying addenda records (data and dollars together).
  - a. **OR** the ODFI (third party processor FI) may originate a CCD or CCD+ credit to the biller, and send the remittance data separately to the biller outside the ACH Network (remittance re-association model).<sup>2</sup>

<sup>2</sup> While this chapter discusses the use of CIE for Third-Party Service Providers using the ACH to transmit payments to billers on consumers' behalf, the TPSP also has the option of transmitting a CCD or CTX transaction to the biller. In this model, a TPSP with multiple consumer customers paying the same biller may "bundle" the payments to a single biller within a single CCD or CTX transaction. Remittance data may accompany the CTX (data and dollars together), or the remittance data could be sent directly to the biller outside the ACH (remittance re-association model), which is the likely scenario if the TPSP uses CCD. More information on this payment option can be found within the CCD/CTX chapter in these Guidelines.

4. RDFI (biller's bank) receives payment transactions, credits biller's account at the RDFI, and provides the remittance detail to the biller.

## CIE RISK PROFILE

Generally, the use of the CIE application presents little risk for consumers, financial institutions, and billers. CIEs have a low return rate, and, because CIEs are credits to the biller rather than debits to the consumer, the use of CIEs minimizes the potential for biller settlement risk that would exist with consumer debits returned as unauthorized or because of insufficient funds. As an example, CIE funds are good funds to the biller upon settlement at the RDFI (the biller's bank), as opposed to debit applications, which can be returned for insufficient funds for up to 2 days after settlement. Similarly, consumer debit transactions are at risk for at least 60 days after settlement since consumers have an extended period of time in which they may dispute whether a debit was authorized.

Risk for CIE transactions mainly occurs as a result of the payment funding model used by the ODFI or Third-Party Service Provider. Two funding models are used by financial institutions and TPSPs: (1) collected funds, and (2) risk or unverified funds. In a collected funds model, the provider secures the customer's funds for the payment prior to initiating or originating a credit to the customer's payee or biller. In a risk or unverified model, the customer's funds are secured at the same time the credit is transmitted to the payee or biller. In either model, a CIE transaction is originated to the payee or biller for the amount owed to complete the payment, and there is no risk for the RDFI or Receiver.

In either model, an offsetting debit originated by the Third-Party Service Provider's financial institution to the consumer's account will be applied to the customer's account by his RDFI. The debit will contain the name of the company to be paid (e.g. for bill payment transactions, the payee or biller) to assist the consumer in account reconciliation. In a collected funds model, the customer's financial institution may use an internal debit transaction.

## RECEIPT AND POSTING OF CIE ENTRIES — RDFIS AND BILLERS

In the bill payment environment, payment posting involves a two-step process:

1. The RDFI posts the entry to the Receiver's (i.e., biller's) account and credits the Receiver with the amount of the CIE entry. (Note: In accordance with the *NACHA Operating Rules*, the RDFI must make funds from ACH credits available to the Receiver on settlement date.)
2. The Receiver (biller) updates its accounts receivables and credits the consumer's account with the biller in the amount of the CIE entry. The *NACHA Operating Rules* do not define a specific timeframe in which this must occur but instead provide the Receiver with a reasonable period of time after the entry is credited to the Receiver's account to post the funds to the consumer's account with the Receiver — that is, within the timeframe that the Receiver normally posts credits. However, the Receiver must apply the funds from the credit as of the settlement date of the CIE entry (i.e. backdate the credit to the consumer's account to agree with the settlement date of the CIE entry).

Typically, billers will post a payment within 24 hours of receiving remittance, or they will return the payment if the payment cannot be posted. Some billers, however, choose not to return unpostable payments but instead will investigate the source of the payment or wait for the consumer to contact them. Examples of unpostable payments can include payments with incorrect information, such as an incorrect biller account number, which may mean that a biller is unable to determine who the customer payment is from.

### ***RDFI as Biller***

Financial institutions can also be billers, for example, when they offer loan products (e.g., student loan, mortgage, credit card, etc.). There are numerous instances where a consumer may have a loan with one bank, and make payments on that loan from another bank. In this case, the ODFI (consumer's bank) will identify the CIE credit as a loan payment using Transaction Code



52 (Automated Loan Account Deposit). (This assumes that the ODFI maintains – or subscribes to — a biller directory that would indicate which bills are for loan products. Then, transaction code 52 would automatically be assigned when the consumer selects the biller loan product during his payee setup in the online banking session.)

Any CIE entries containing a loan transaction code would be routed directly to the RDFI's loan system. The account number field contains the loan number in this case, so the loan payment can post directly to the loan system.

## **CIE EXCEPTION PROCESSING**

Online bill payments that billers cannot post accurately and promptly upon receipt result in the need for exception processing. The issues listed below are common causes of CIE processing problems.

### ***ACH Operator Returns***

By definition, CIE is a credit-only application. ACH Operators will return any CIE entry that bears a debit transaction code unless it is for the specific purpose of reversing a previously originated, erroneous CIE credit. The ACH Operator will identify these types of returns using Return Reason Code R35 (Return of Improper Debit Entry). ODFIs should ensure that each CIE entry contains an appropriate credit transaction code unless the entry is explicitly identified as a reversal.

### ***User Error***

The inclusion of an invalid customer account number at the biller within the CIE entry is generally the primary cause of exception items for payments originating from online banking systems. These customer account numbers include, but are not limited to, policy numbers, customer numbers, invoice numbers, etc., and are the means by which the biller recognizes the payer. (In a CIE entry, this number is located within the Individual Identification Number of the CIE Entry Detail Record.) There are a number of reasons why account numbers may be invalid. Common problems involve typos, missing or extra characters, lack of consumer understanding, mismatched payments and bill, among other reasons.

### ***Biller Bulk Changes***

CIE exception processing can also result from “bulk changes” made by billers to their customer account numbers. These are changes made en masse to a biller's customer account number system as a result of a merger, acquisition, portfolio sale, billing system change, or other reason. When a biller conducts a wide-scale change to consumer account numbers, there is a ripple effect to the online bill payment service that is used by the consumer. When such changes occur, there are generally three paths that may be taken:

1. Consumers make changes to their online bill payment service set-up as they become aware that the account number needs to be changed. This is generally a time-consuming process that results in unnecessary costs to the industry stakeholders, and could result in decreased consumer satisfaction if the payment is untimely or inaccurate.
2. Biller maintains a cross-reference file of the old and new account numbers on its system. This is generally maintained for a limited period of time (e.g., 12 months) and will map entries with the old account number to the new account number during this period. Online bill payments will reject after this period of time unless the consumer's online bill payment set-up is corrected.
3. Biller proactively contacts the online bill payment processors to coordinate the bulk changes.

While there is no industry standard for billers and processors to communicate bulk changes, there is an opportunity to improve communication between billers and processors about impending bulk changes that will help to minimize exceptions. The biller is in the best position to initiate the discussion with the processors and ideally provide the correct account number to be used. In general, processors require 7 – 14 days to implement the bulk changes.

Billers, processors, and consumers will benefit from the proactive communication of bulk changes because:

- changes can be made on or shortly after the effective date of the change;
- it eliminates the need for each consumer to update the account number through the online banking/consolidator system which is time consuming and subject to errors; and
- it dramatically reduces exception items.

For a biller to provide a bulk-change notification, each processor will require secure biller-specific requirements that will be defined by the processor.

### ***Correcting Biller Account Numbers Through the NOC Process***

Notifications of Change (NOC) should be created by Receivers of CIE transactions (i.e., the payee or biller) and transmitted via their RDFIs to notify consumers and their financial institutions/bill payment service providers when there is a change in the customer's account number at the payee/biller. An NOC is originated when: (1) the payee or biller changes a customer's account number due to internal system requirements, or (2) the payee or biller can post the payment but the original customer account number received from Originator was not correct. Change Code C09 – Incorrect Individual Identification Number – is used for this purpose. When an NOC is received by the ODFI/Originator, the Originator must update the customer's payee or biller account number within six banking days or prior to transmitting the next CIE entry, whichever is later.

## **FORMATTING AND TECHNICAL REQUIREMENTS**

ACH participants should be aware that CIE entries include some non-standard uses of certain fields when compared to other SEC Codes.

### ***CIE Company/Batch Header Record***

#### ***Company Name and Company Identification Fields***

For CIE entries, the contents of the Company Name and Company Identification fields in the Company/Batch Header Record identify the Bill Payment Service Provider transmitting the entry

rather than the Originator (the consumer paying the bill). The identification of the Bill Payment Service Provider in these fields provides the biller with the means to identify the Bill Payment Service Provider originating the transaction in the event that the biller needs to contact the Bill Payment Service Provider concerning a customer inquiry or error investigation.

### ***Company Discretionary Data***

In a CIE entry, the Company Discretionary Data field within the Company/Batch Header Record identifies the name of the biller (i.e., the Receiver) to which the entries are being transmitted.

Note: This is different from the typical use of this field for other SEC Codes, where Originators and ODFIs may, at their option, include codes of significance to them for specialized handling of the entries within the batch. For non-CIE applications, the Receiver is typically identified within the Entry Detail Record.

### ***CIE Entry Detail Record***

#### ***Individual Name***

For CIE entries, the Individual Name field within the Entry Detail Record is used to provide the Receiver with additional information to identify the payment — typically the name of the payor on whose behalf the CIE entry was transmitted.

Note: This is different from other SEC Codes, where the Individual Name is otherwise the name of the Receiver of the payment.

#### ***Individual Identification Number***

In a CIE entry, the Individual Identification Number field within the Entry Detail Record contains the accounting number by which the payor (the consumer) is known to the payee (Receiver/biller). This number is used by the Receiver to update accounts receivable records, and should be the number shown on an invoice, statement, billhead, or other communication as the reference. Numbers may be policy numbers, customer numbers, invoice numbers, meter numbers, etc.



### ***CIE Addenda Record***

CIE entries may be accompanied by one “05” Addenda Record.

#### ***Payment Related Information Field***

Any payment-related ANSI ASC X12 data segment may be included within the Payment-Related Information field of the CIE addenda record. This enables billers and Bill Payment Service Providers to transmit specific information related to the payment that assists them when processing CIE entries, such as consumer name or address.

The specific ANSI ASC X12 data segments that are included within this field are decided upon by agreement between the Bill Payment Service Provider and the biller. Information transmitted between the bill payment service provider and biller may, for example, include a name, account number with the biller, additional address information, etc.

For Example:

```
N1*BY*John Smith*ZZ*123456789\  
N4**VA*201714\  

```

In the above example, the N1 (Name) and N4 (Geographic Location) data segments are used to convey consumer name, account number, state, and postal code data to further identify the consumer to the biller.

When determining which segments should be included, remember that the Payment Related Information field is limited to 80 characters and many ANSI ASC X12 data segments have variable length fields. For example, the N1 segment can have a minimum of 10 and a maximum of 63 characters if all elements are used and the N4 segment can contain a minimum of 13 and a maximum of 82 characters (ANSI ASC X12 Version Release 3060).

You can use a valid ANSI ASC X12 data segment but the total number of characters, including delimiters and terminators can only be a maximum of 80 characters. The X12 data segments may allow for more than 80 characters but the ACH Payment Related Information field is a maximum of 80 characters.

## BEST PRACTICES FOR MINIMIZING EXCEPTIONS – PAYEE SET-UP FOR ONLINE BANKING

The table below summarizes a number of recommended best practices for improving the accuracy of account numbers accompanying electronic bill payments. These scenarios focus on minimizing the potential for error at the front-end of the process — that is, what can be done prior to transmitting a consumer's first payment to a biller from an online banking/consolidator system. Additional scenarios provide recommendations for internal processes that can be implemented after the first payment exception is received.

PROCESS	RECOMMENDED BEST PRACTICES
<b>Biller provides information for third party processor biller directories to facilitate payment origination process from online banking/payment consolidator systems</b>	<ul style="list-style-type: none"> <li>• Provide and maintain processing instructions on the processor's EBPP Biller Directory: account number set up parameters (e.g., account mask, check digit routine.), remittance information (e.g., remittance addresses), and other relevant information (e.g., alternative biller names)</li> <li>• Provide exception error reports to processors and payment consolidators so EBPP Biller Directory and other database updates can be made on a timely basis.</li> <li>• Work with processors and payment consolidators to exchange information on a periodic basis (e.g., monthly) using "scrub files". Generally, the processor/payment consolidator will extract all of the consumer names and account numbers associated with a unique biller on its EBPP Biller Directory (containing no dollar amounts). The biller will match the consumer data on the processor/payment consolidator system with its internal system, and provide the processor/payment consolidator with corrections showing the incorrect ("old") and correct ("new") account numbers. The processor/payment consolidator will use this information to update its systems, and preferably, reflect the new, updated account number on the consumer's payee set up on the online banking/consolidator site.</li> <li>• Establish procedures for monitoring and reporting exception items. Send corrections to processor/payment consolidator on a daily, monthly or at least a quarterly basis.</li> <li>• Provide additional data to processor/payment consolidator such as consumer account name when a biller issues the same account number to different customers within its system.</li> </ul>
<b>Biller provides consumers with clear online bill payment set-up instructions.</b>	<ul style="list-style-type: none"> <li>• Use the same account number for online bill payments as the one shown on the remittance coupon.</li> <li>• Ensure the account number to be used for online bill payments is clearly defined and highlight the account number on the paper bill.</li> <li>• Provide instructions and examples on your website that demonstrate where the account number is on the paper bill, and what identifier(s) need to be provided when making an online bill payment via online banking/consolidator providers.</li> </ul>
<b>Processors manage/monitor payee setup and payment origination</b>	<ul style="list-style-type: none"> <li>• Enforce "front end" consumer data entry rules, and apply account edits early in the consumer data entry process.</li> <li>• When the consumer is setting up the account number for a biller, provide consumer with an error message if the account number does not match the biller's instructions on the EBPP Biller Directory (e.g., check digit routine, prohibit consumers entering "NA" or "free checking", etc. as remittance information).</li> <li>• When consumer enters incorrect account number, provide consumer with online self-help and instructions.</li> <li>• Implement strong biller account number edits (e.g., length, data type, beginning prefix numbers such as BINs – Bank Identification Numbers, and check digit routines) when possible.</li> <li>• Monitor the number and frequency of exception items and make adjustments to account number edits as needed.</li> <li>• Work with billers to improve setup process by ensuring account masks have been defined. Fine-tune the masks/edits, and remove them where they cause default to paper.</li> <li>• Work with billers to be able to verify posting and account information.</li> </ul>

PROCESS	RECOMMENDED BEST PRACTICES
<b>Billers and processor ongoing processes</b>	<p><b>Billers</b></p> <ul style="list-style-type: none"> <li>• Understand that payment processor should not be responsible for blocking payments for closed consumer accounts with billers.</li> <li>• Try to locate a new account for the customer; if available, billers should post the payment and send correction notice to payment consolidator.</li> <li>• Provide scrub files to online bill payment processors to proactively correct consumer account numbers.</li> </ul> <p><b>Processors</b></p> <ul style="list-style-type: none"> <li>• Dedicate teams to process biller updates on the front-end online banking systems/consolidators and evaluate potential impact before any update occurs.</li> <li>• Build a biller contact network with the front-end online banking systems/consolidators for facilitating updates, scrub files and escalating significant payment issues/trends for a specific biller or block of consumer account numbers.</li> <li>• Develop/maintain a secure way to communicate with consumers using online banking systems/consolidators.</li> <li>• Establish an electronic sharing process of exceptions so that billers are aware of exceptions on a timely basis.</li> <li>• Provide billers with an online application to allow billers to securely communicate corrected information.</li> <li>• Review check images. Make changes to the consumer's account number when biller has noted correct account number on cancelled check.</li> </ul> <p><b>Both</b></p> <ul style="list-style-type: none"> <li>• Ensure regular and continuous communications.</li> <li>• Work closely together to implement re-routing processes for corrected account numbers. (Positive files.)</li> </ul>
<b>Billers communicate with the consumer after receiving a payment exception</b>	<ul style="list-style-type: none"> <li>• Contact consumers who have had three or more exceptions.</li> <li>• Call consumers who have not updated their account number and work with them directly to update the number contained on the online bill payment system.</li> <li>• Send mail to the consumers advising them to update their account information online.</li> <li>• Clearly communicate account number changes along with a reminder to update online bill payment information before the next payment is scheduled or executed.</li> </ul>
<b>Billers develop internal fixes</b>	<ul style="list-style-type: none"> <li>• Consider very "loose" edits if effective exception handling processes can be developed (e.g., cross reference tables).</li> <li>• Determine exception handling policies (e.g., do not refuse payment unless it is obviously not for your company) that are in compliance with specific regulatory obligations</li> </ul>
<b>Billers proactively communicate with third party processors about bulk changes</b>	<ul style="list-style-type: none"> <li>• See Biller Bulk Changes discussion in this chapter.</li> </ul>

## CHAPTER 43

**International ACH Payments  
(IAT)**

The *NACHA Operating Rules* require ODFIs and Gateways to identify all international payment transactions transmitted via the ACH Network as International ACH Transactions using the IAT Standard Entry Class Code. IAT transactions include specific data elements<sup>3</sup> defined within the Bank Secrecy Act's (BSA) "Travel Rule"<sup>4</sup> so that all parties to the transaction have the information necessary to comply with U.S. law, which includes the programs administered by the Office of Foreign Assets Control (OFAC). These requirements of the *Rules* are aligned with OFAC compliance obligations, making it easier for RDFIs to comply with those requirements.

**OVERVIEW*****International ACH Transactions***

The domestic ACH Network facilitates batch payment processing within the U.S., providing users with next-day or two-day settlement capabilities. International payments are credit and debit payment instructions exchanged electronically across national borders to transfer value between an Originator (sender) and a Receiver (beneficiary). The use of international ACH payments provides a cost effective method for corporate clients to make high volume payments to vendors or consumers in other countries by leveraging in-country clearing systems of the other country.

The benefits of international ACH transactions are the same as domestic ACH payments in terms of safety, reliability, and security. In addition, international ACH transactions also benefit users through:

- a reduction in funds movement costs;
- more predictable cash flow;

<sup>3</sup> NACHA did not implement all aspects of the BSA "Travel Rule" with the IAT SEC code. Only specific data elements were adopted. The IAT does not include the dollar threshold established by the BSA "Travel Rule".

<sup>4</sup> 31 C.F.R. Part 103.33(g)

- a reduction in the need to maintain multiple bank relationships globally; and
- settlement on a specified value date.

Exchanging ACH payments internationally does, however, present certain challenges:

- no Global or International ACH Operator currently exists;
- no internationally utilized standard for batch processing is available;
- no common set of rules exists;
- no international counterpart to the U.S. prenotification process is available;
- settlement times vary by country;
- different formats exist for account numbers and bank routing numbers;
- holiday schedules vary by country;
- reversals are not allowed in many countries;
- debit rules vary by country;
- some clearing systems have local language requirements; and
- local currency is required for domestic payment systems.

***Inbound IAT Process Flow***

Payment transactions that enter the U.S. and that are destined to be processed through the U.S. ACH Network as (inbound) IAT transactions are part of a payments chain that begins as a SWIFT or proprietary payment message from a financial institution in another country. The IAT file format will, in most cases, not be used by payment originators in other countries. These transactions will be converted to the IAT format once the payment request reaches the U.S. financial

institution that serves as the U.S. ODFI. Outbound IAT entries, while originated through the U.S. ACH system, will reach the receiving financial institution in the other country through a variety of methods (e.g., SWIFT, proprietary networks, or possibly the domestic ACH system of the receiving country). The IAT format is only used for international batch payment transactions where some part of the payment process involves the U.S. ACH Network.

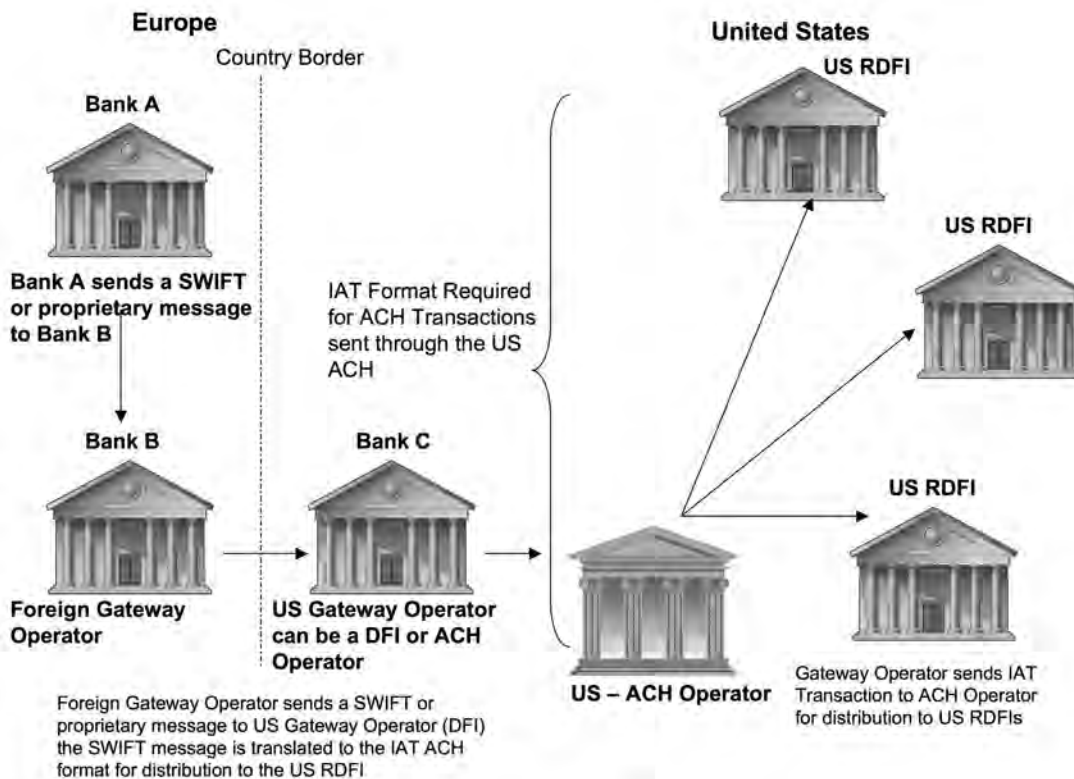
Figure 43-1 provides an illustration of an international payment inbound to the U.S. In this example, Bank A in Germany originates a SWIFT message on behalf of the Originating Company to its correspondent bank (Bank B) in the U.K. The message requests that payments be made in the U.S. via the ACH Network to the ultimate beneficiaries (Receivers), and funding instructions for all transactions are included with the message. Bank B sends the SWIFT message to

its correspondent bank (Bank C) in the U.S., along with funding instructions for the payments. Bank C acts as the U.S. Gateway Operator (entry point to the U.S.). Bank C receives the SWIFT message and funding, creates the ACH files (IAT format), and transmits the ACH file to the ACH Operator. The ACH Operator processes the file and transmits the transactions to the RDFIs for posting to the Receivers' accounts. Bank B would also be identified as a Foreign Correspondent Bank in the IAT Addenda Record for Foreign Correspondent Bank Information. This addenda record is created by the U.S. Gateway Operator or its designate.

## REGULATORY ENVIRONMENT

### *Federal Regulatory Agency Requests & Guidance*

OFAC has stated that financial institutions need to safeguard the U.S. financial system from terrorist and other sanctions abuses involving international ACH payments. In the domestic



payment environment, ODFIs and RDFIs can rely on each other to ensure compliance with OFAC obligations with regard to their own customers. For international payments, however, DFIs cannot rely on international counterparts for compliance with U.S. law. The examination procedures for financial institutions' risk-based OFAC compliance are included in the Federal Financial Institutions Examination Council's (FFIEC) Bank Secrecy Act/Anti-Money Laundering Examination Manual.

### ***Identification of International ACH Transactions and Formats to Comply with U.S. Law***

Under the IAT rules, international ACH payments are identified by focusing on where the financial agency that handles the payment transaction is located, regardless of where any other party to the transaction (e.g., the Originator or Receiver) is located. Specifically, where any ACH entry is part of a payment transaction that involves a financial agency's office that is not located within the territorial jurisdiction of the United States, the ACH entry must be identified using the IAT (International ACH Transaction) Standard Entry Class Code. As a result, certain transactions that are international in nature but were transmitted as PPDs or CCDs in the past are now required to be transmitted as IATs. The IAT format helps RDFIs comply with their obligations under U.S. law by:

- carrying the additional data requirements included in the BSA's "Travel Rule" (i.e., Originator name/physical address/deposit account number, Originator's depository institution name, payment amount, Receiver name/address/account number, and the Receiver's financial institution), as requested by OFAC; and
- containing OFAC Screening Indicators to aid financial institutions in effective interdiction of unlawful transactions.

The identification of these payments as international transactions and the inclusion of data elements from "Travel Rule", as well as the means to convey OFAC screening results, enable the RDFIs to comply with OFAC compliance expectations.

## **OVERVIEW OF IAT RULE REQUIREMENTS**

### ***Identification of International Payments***

With the implementation of the IAT SEC code, ACH transactions originating from or transmitted to an office of a financial agency located outside the territorial jurisdiction of the U.S. are required to be explicitly identified by the ODFI or Gateway Operator entering such payments into the U.S. ACH Network. The following definition of International ACH Transaction was established for such transactions, to which the SEC code, IAT, and formatting requirements apply.

International ACH Transaction or IAT entry means a debit or credit entry that is part of a payment transaction involving a financial agency's office that is not located in the territorial jurisdiction of the United States. For purposes of this definition, a financial agency means an entity that is authorized by applicable law to accept deposits or is in the business of issuing money orders or transferring funds. An office of a financial agency is involved in the payment transaction if it (1) holds an account that is credited or debited as part of the payment transaction; or (2) receives payment directly from a Person or makes payment directly to a Person as part of the payment transaction; or (3) serves as an intermediary in the settlement of any part of the payment transaction. These entries must be originated using the IAT Standard Entry Class Code.

The term "payment transaction" in the definition of an International ACH Transaction is not a defined term within the *NACHA Operating Rules*, but OFAC has requested that NACHA provide guidance to the ACH participants on the use of the term.

Within the IAT definition, payment transaction refers to

- an instruction of a sender to a bank to pay, or to obtain payment of, or to cause another bank to pay or to obtain payment of, a fixed or determinate amount of money that is to be paid to, or obtained from, a receiver, and
- any and all settlements, accounting entries, or disbursements that are necessary or appropriate to carry out the instruction.



The IAT definition classifies international payments based on the geographical location of the financial agencies (financial institutions or money transmitting businesses) involved in the transaction, instead of on the location of the other parties to the transaction (e.g., Originator or Receiver). For example, payment transactions that start as wires or interbank transfers from abroad and are converted to ACH entries by a U.S. financial agency would be covered under this definition. On the other hand, ACH entries originated from an account at a U.S. DFI based on instructions from the account holder residing abroad would not be covered, unless the instructions were included with funding in a SWIFT or proprietary message sent from a foreign financial institution to the U.S. DFI. Similarly, domestic ACH entries funded over the counter at a U.S. DFI would be excluded, while a similar entry funded at a foreign bank would be included. (See attached “ACH Payment Scenarios: Domestic or International?” for more examples of how the IAT definition would apply to various payment situations.)

This definition does not apply to transactions that may involve data received or processed offshore, where the processing entity is not a party to the transaction and such processing is incidental to and does not alter the terms of the transaction. In these cases, the offshore party does not have a direct financial stake in the transaction through an account relationship or settlement obligation (e.g., consolidated corporate treasury departments or contracted third-party data processors).

IAT =			
Payment Transaction (Instruction + Settlement)	+	Financial Agency ( <i>Outside</i> the Territorial Jurisdiction of the United States)	+
			U.S. ACH Network Use of the IAT SEC code is required <i>IF</i> the transactions flow through the U.S. ACH Network at some point

FIGURE 43-2

### ***Obligations for Gateways and ODFIs***

A Gateway under this rule is defined as follows:

*Gateway* means either an ACH Operator or a Participating Depository Financial Institution that acts as an entry point to or exit point from the

United States for ACH payment transactions. Also known as a “Gateway Operator.”

The IAT application incorporates, within the sections of the *Rules* addressing ODFI and Gateway obligations, specific rules and requirements for each of these parties when exchanging IAT entries. Specifically, Article Two (Rights and Responsibilities of ODFIs, Their Originators and Third-Party Senders) includes provisions governing ODFIs when originating IATs, and Article Five (Rights and Responsibilities of Gateways for IAT Entries) addresses Gateway responsibilities.

### ***Gateway Obligations***

Article Five (Rights and Responsibilities of Gateways for IAT Entries) includes the following specific obligations for Gateways:

- to obtain authorization from the ODFI or a customer of the Gateway to originate IAT entries;
- to enter into an agreement with the ODFI or a customer of the Gateway in which the ODFI or the Gateway's customer instructs it to receive Outbound IAT Entries on the ODFI's or customer's behalf for re-transmission to a foreign country;
- to notify the intended RDFI when it has blocked and/or rejected any Inbound payment transaction because the origination of an Inbound IAT Entry for such transaction would violate U.S. legal requirements (effective September 21, 2012);
- to transmit a timely ACH return entry for any Outbound IAT entry that is returned to it by the Foreign Gateway in accordance with the foreign law or foreign payment system rules by which the Gateway is bound;
- to provide the Foreign Gateway with corrected data contained within any NOC related to an Inbound IAT entry within two banking days of the settlement date of the NOC (effective March 16, 2012); and
- to comply with U.S. laws and regulations.

An ACH Operator acting as a Gateway also will be required to ensure that Inbound IAT entries are restricted to ACH credits only, with the exception of reversals. Outbound IAT entries processed through an ACH Operator acting as a Gateway may be either credits or debits.

A Participating DFI acting as a Gateway is also deemed to have assumed the responsibilities and warranties of an ODFI (for Inbound IAT Entries) or an RDFI (for Outbound IAT Entries), pursuant to Article Two (Rights and Responsibilities of ODFIs, Their Originators and Third-Party Senders) or Article Three (Rights and Responsibilities of RDFIs and Their Receivers), respectively. Participating DFIs acting as Gateways may originate both credit and debit entries, inbound and outbound.

#### ***Gateway vs. ACH Operator***

The Federal Reserve provides a Gateway service with its FedGlobal service. With this service, it processes inbound IAT credit transactions, does an OFAC review of all inbound IAT transactions, populates the OFAC Screening Indicator field, and reports the suspect transactions to OFAC.

The Federal Reserve and EPN, as ACH Operators, will process all IAT transactions originated by DFIs as Gateways. They will perform all ACH Operator edits on the IAT debit and credit transactions and deliver the IAT transactions to the RDFIs. The ACH Operators will NOT do an OFAC review of the IAT transactions.

#### ***ODFI Obligations***

In addition to all other ODFI warranties and obligations defined within Article Two (Rights and Responsibilities of ODFIs, Their Originators and Third-Party Senders), additional obligations for IAT transactions relate to: (1) Originator authorization and agreement; (2) ODFI warranties for Outbound IAT entries with respect to compliance with U.S. law and compliance with foreign payment system rules; and (3) exceptions for Inbound and Outbound IAT entries (refer to the *NACHA Operating Rules* for a complete listing of exceptions).

#### ***Identification of Participants in an IAT Entry***

The following definitions are included in Article Eight of the *Rules* to assist ACH participants

in understanding the parties and terminology involved with an International ACH Transaction:

*Foreign Correspondent Bank* means a Participating DFI in a foreign country that holds deposits owned by other financial institutions and provides payment and other services to those financial institutions.

*Foreign Gateway Operator* means a Gateway Operator that acts as an entry point to or exit point from a foreign country.

#### ***IAT SEC Code***

The IAT application consolidates consumer and non-consumer international payments under the same SEC code (IAT). Unlike the U.S., payment formats used in other countries typically do not distinguish between consumer and business transactions.

The use of one SEC code for all international payments requires ACH participants to treat international payments to consumer and business accounts in the same manner. As a result, the longer timeframe associated with the return of unauthorized consumer transactions under the *Rules* also applies to unauthorized entries to business accounts. Specifically, for Inbound IAT entries, the return of any unauthorized IAT entry is required to be transmitted by the RDFI in such time and manner that the return entry will be made available to the ODFI/Gateway Operator no later than the opening of the business on the banking day following the sixtieth calendar day following the settlement date of the original entry. (Note: For Outbound IAT entries, the time frames for return of an entry are determined by the payment system rules of the foreign country and may exceed the 60-day return window defined by the U.S. ACH system.)

#### ***Formatting Modifications***

##### ***Data Requirements***

The IAT format includes certain data elements from the BSA's "Travel Rule," which is currently required for wire transfers. The data elements listed below are included in the IAT format and all fields correspond to the SWIFT message format field lengths to allow for greater interoperability.

- Name and physical address of the Originator
- Name and physical address of the Receiver (“Beneficiary”)
- Account number of Receiver
- Identity of the Receiver’s bank
- Foreign Correspondent Bank(s) name, Bank ID number and Bank Branch Country Code

#### *Mandatory Addenda Records*

Seven mandatory Addenda Records must accompany each IAT entry in order to convey the information listed above. All information related to a particular ACH participant is grouped together within one or more addenda records (e.g., information related to the Originator will be provided together within one or more addenda records).

#### *Optional Addenda Records for Remittance Information*

IAT entries accommodate the transmission of optional remittance information. A maximum of two optional addenda records can accompany an IAT entry, within which a maximum of 160 characters (80 characters per addenda record) of remittance information can be included. This enables standard 4x35 remittance information in a SWIFT message or Fedwire-formatted record to be included within an IAT entry. There are no formatting specifications for the optional remittance information except for those banking conventions that have been developed to carry mandatory information for secondary SEC codes identified in the Transaction Type Code field.

#### *Addenda Records for Foreign Correspondent Bank Identification*

A separate addenda record must be added to the payment for each Foreign Correspondent Bank that is involved with the transmission or exchange of an IAT entry. Any Foreign Correspondent Bank that is involved in an IAT transaction must be identified within an addenda record, providing parties to the transaction with additional information needed to identify and react to unlawful transactions. A maximum of five Foreign Correspondent Bank addenda records may accompany an IAT entry.

The Foreign Correspondent Bank addenda record is used only for inbound IAT transactions to identify any intermediary foreign bank involved in the transactions between the foreign originating bank and the U.S. Gateway Operator.

(*Note:* A maximum of twelve addenda records may be transmitted with an IAT entry. Seven of these addenda records are mandatory and contain the travel rule information identified above. Five additional addenda records (i.e., remittance and foreign correspondent bank detail) may also accompany each entry.)

#### *OFAC Screening Indicators*

The IAT format includes two optional, single-character fields within the Entry Detail Record to convey the results of voluntary OFAC screening on the transaction. For Inbound IAT entries, the first field is available to convey the results of an OFAC screen by a Gateway Operator, and a secondary screening indicator is available to be used by a third-party service provider to convey such screening results. A value of “0” indicates that the party conducting the screening has not found a potential blocked party, as identified by OFAC on its list of Specially Designated Nationals (“SDN list”). A value of “1” indicates the potential presence of a blocked party. The field must be space-filled if no screening has been conducted. These OFAC screening indicators assist RDFIs processing international payments with their compliance obligations by identifying entries that are highly suspect.

The Federal Reserve Bank’s Retail Payments Office, on behalf of the Federal Reserve in its capacity of a Gateway Operator, screens Inbound IAT entries for OFAC compliance, as requested by OFAC. It advises the RDFI, through the use of an OFAC Screening Indicator, of potential issues and, subject to OFAC’s approval, utilizes FedLine Web to advise the RDFI of Inbound IAT transactions that contain data appearing on the OFAC “SDN List.” The Electronic Payments Network (EPN), the private-sector ACH Operator, also makes available an OFAC screening function to its customer financial institutions as a value-added service.

The OFAC Screening Indicator should only be used as a reference and not the final determining factor for OFAC compliance by the RDFI.

## **Returns and Notifications of Change for International ACH Transactions**

### **IAT Returns**

The seven mandatory addenda records that accompany a forward IAT entry are required to be transmitted with any IAT return entry. An IAT return is also required to include one additional addenda record within which specific information related to the return (such as return reason code, original entry trace number, etc.) is included. Addenda records related to Foreign Correspondent Banks and those containing remittance information are not copied for return to the Originator.

These IAT return formatting requirements differ from domestic ACH return processing. For the return of domestic transactions, addenda records transmitted with forward entries are not returned by the RDFI, as they contain only remittance information and are not necessary to identify the original transaction or process the associated return. IAT addenda records, however, contain key data related to the payment itself, and the return of such information is needed to adequately identify the original transaction and process the return.

### **Dishonored and Contested Dishonored Returns Not Permitted for IAT Entries**

Dishonored and Contested Dishonored Return entries are not permitted for use with IAT entries. These domestic exception processes do not have counterparts within foreign payments systems, requiring issues beyond return of the original transaction to be resolved through channels other than the dishonor/contested dishonor process. Information obtained from Gateways under the prior cross-border process indicated that the volume of exception situations requiring additional handling of returned entries was extremely low and that manual handling of such issues had been adequate in resolving problems related to these payments. Based on this information, and on additional complexities involving foreign exchange conversion, the *Rules* prohibit IAT return entries from being dishonored or contested.

### **IAT Notifications of Change**

RDFIs can transmit changes related to routing numbers and account numbers for IAT entries via the Notification of Change (NOC) process. Based

on data obtained from the Gateway, changes related to other information carried within an international payment are generally not applicable to international payments and are not supported under the IAT application. NOCs related to IAT entries have unique formatting requirements based on data requirements associated with international payments, requiring development of a distinct set of formats (company/batch header record, entry detail record, and addenda record) for these NOC entries. NOCs related to IAT entries are distinguished from domestic NOCs through the use of an “IAT Indicator” code within the Company/Batch Header Record.

Unlike the IAT return process, the seven mandatory addenda records, the remittance addenda records, and the Foreign Correspondent Bank addenda records transmitted with the forward IAT entry are not needed to process the NOC and are not included. The transmission of Refused NOCs is not supported by the IAT rules.

(*Note:* For an Outbound IAT entry, where the RDFI resides in a foreign country, the rules governing NOCs apply only to the extent that the NOC process is supported by the payment system rules of the foreign receiving country. However, for an Inbound IAT entry, where the RDFI is a U.S. financial institution, NOC rules apply as they do to other, domestic entries. Where a U.S. RDFI initiates an NOC in relation to an Inbound IAT entry, the Gateway is obligated (as of March 16, 2012) to provide any corrected data contained within that NOC to the Foreign Gateway within two banking days of the settlement date of the NOC.)

### **Exemption from Rules Obligations – IAT Processing and the Effect of Illegality**

A Participating DFI must process each IAT entry in accordance with all requirements of the *NACHA Operating Rules*. A DFI is excused from its compliance with specific obligations under the *Rules* only when the processing of an IAT entry would cause the DFI to be in violation of U.S. law. The DFI must, therefore, comply with its obligations under the *NACHA Operating Rules*, and any other legal requirements related to the Entry, unless it identifies an IAT as a suspect transaction. For domestic RDFIs that receive inbound IATs, these obligations include, but are not limited



to, the timely provision of funds and the timely transmission of returns.

A suspect transaction, for purposes of OFAC compliance<sup>5</sup>, is one that potentially involves or relates to a “specially designated national” (SDN) or “blocked party,” and requires more detailed examination by the Participating DFI to determine whether the entry violates OFAC sanctions. For these suspect entries only, the *Rules*, through the effect of illegality provision, excuse the Participating DFI from its obligations to comply with any provision of the *Rules*, such as crediting or debiting an account, if such compliance is inconsistent with U.S. law.

Following the implementation of the IAT application, NACHA received reports that some domestic RDFIs were liberally applying the provision on the effect of illegality. In these cases, RDFIs assumed that, solely because entries were coded as IATs (and not because the entries were suspect transactions), they did not have to meet the requirements of the *Rules* (including, but not limited to, timely provision of funds or returns). This is inconsistent with the requirements of the *Rules* and, as with any other infraction of the *Rules*, can subject the DFI to enforcement action through the National System of Fines.

#### *Timing of OFAC Screening of IAT Transactions*

NACHA has received reports that some RDFIs do not screen IAT entries for OFAC compliance prior to posting them to the Receiver’s account. In some cases, this is due to system or software constraints at the RDFI. NACHA contacted OFAC requesting comment on this practice and received a letter from OFAC (GEN-594137) stating its position. In the letter, OFAC states:

“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.”

A copy of OFAC’s letter can be found on the IAT Resource page on the NACHA website at [www.nacha.org](http://www.nacha.org)

### **ACH PAYMENT SCENARIOS: DOMESTIC OR INTERNATIONAL?**

Several scenarios are provided below to better understand when a specific payment transaction involving the U.S. ACH Network should be deemed an International ACH Transaction (IAT) or a domestic ACH transaction. In all scenarios, the location of the financial agencies involved in the settlement of the transaction is the key determining factor. The term “financial agency” is primarily intended to mean a depository financial institution, but it also covers money transmitting businesses to the extent they are involved in the payment transaction.

While the scenarios described below represent an assessment of situations that are likely, they are not all-inclusive as to the types of transactions and situations that might give rise to a determination of an IAT or a domestic ACH transaction. Domestic transactions are listed in scenarios A, B, C/D, and part of the transactions for scenario F. IAT transactions are listed in scenarios C/D - Alternatives 1 & 2, E, G, H and part of the transactions for scenario F.

Each scenario involves defined parties as recognized in the *NACHA Operating Rules* that govern IATs under the IAT SEC code.

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<sup>5</sup> This is for information purposes only, and is not intended to provide legal advice. Readers should seek advice from legal advisors with regard to their obligations under programs administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control.

**NOTE:** Immediately following each detailed scenario is a “simplified” recap of the scenario to assist in the evaluation of the scenario. While the detailed scenarios have been reviewed and approved by OFAC, the simplified scenarios have not.

## Scenarios

### Scenario A – Payroll:

A U.S.-domiciled company with 500 U.S.-resident employees is a subsidiary of an offshore multinational corporation with its headquarters in Europe. Revenues are generated through domestic business activities of the U.S.-domiciled company.

Twice monthly, the U.S.-domiciled company sends payroll payment instructions for all 500 U.S. employees in a single file to its New York bank where it holds an account.

Upon receipt of the payroll information from the U.S.-domiciled company, the New York bank executes the following payment transactions:

- Originates an ACH file of 420 credit entries to pay 420 of its employees on settlement date, with an offsetting book-entry debit to the company’s account at the New York bank totaling the sum value of all 420 credit entries;
- Prints and ships to the company 80 payroll checks (and 500 payroll stubs), drawn on the company’s U.S. bank account at its New York bank, to pay those U.S. employees not on Direct Deposit.

### Result – Domestic or IAT?

All 420 ACH credits and the single, offsetting debit in this scenario would be domestic transactions and not IATs (the credits would be PPD entries; the debit typically would be an on-us DDA entry). This is because the New York bank and the RDFIs holding the employees’ accounts are the only financial agencies involved in the transactions and they are all in the territorial jurisdiction of the U.S.

#### Simplified Scenario A – U.S. Domiciled Company/ Standard Direct Deposit

- U.S. domiciled company
- No direct funding for the payroll from outside the territorial jurisdiction of the United States
- ACH file information created by or for the U.S. company and sent to their U.S. bank
- All employees’ ACH deposits are being sent to banks within the territorial jurisdiction of the United States.

*Domestic transactions, formatted as PPD transactions*

### Scenario B – Payroll:

A U.S.-domiciled company with 500 U.S.-resident employees is a subsidiary of an offshore multinational corporation (the parent company). The parent company has centralized many of the global treasury, human resources, and data processing functions of its global subsidiaries (including the U.S. subsidiary) at its headquarters in Europe.

Twice monthly, the U.S. subsidiary sends the parent company any changes to employee status, salaries, hours, etc. Also, twice monthly, after updating its central HR records, the parent company sends payroll payment instructions for all U.S. employees in a single file to its New York bank on behalf of the U.S. subsidiary, which holds an account with the New York bank. Funding for payroll is generated through business activities of the U.S. subsidiary.

The New York bank receives the U.S. subsidiary’s payroll file from the parent company, and executes the following:

- Originates an ACH file of 420 credit entries to pay 420 U.S. employees on settlement date, with an offsetting book-entry debit to the U.S. subsidiary’s account at its New York bank totaling the sum value of all 420 credit entries;
- Prints and ships to the U.S. subsidiary 80 payroll checks (and 500 payroll stubs), drawn on the subsidiary’s U.S. account at its New York bank to pay those U.S. employees not on Direct Deposit.



### Result – Domestic or IAT?

All 420 ACH credits and the single, offsetting debit in this scenario would be domestic transactions and not IATs (the credits would be PPD entries; the debit typically would be an on-us DDA entry). This is because the New York bank and the RDFIs holding the employees' accounts are the only banks involved in the transactions. No financial agencies located outside of the territorial jurisdiction of the U.S. are involved in the payment transactions.

<p>Simplified Scenario B – <b>U.S. Subsidiary of a Offshore Multinational Corporation</b></p>
<ul style="list-style-type: none"> <li>• U.S. domiciled company</li> <li>• No direct funding for the payroll from parent company. The funding is for general operating activities of the company and not for a specific ACH file. [Funding can be from U.S. company activities or received as part of a regular funding of the company activities by the parent on a daily, weekly, monthly basis for all check, wire transfer, card or ACH activity.]</li> <li>• ACH file — may or may not have been originated by parent company</li> <li>• All employees' ACH deposits are being sent to banks within the territorial jurisdiction of the United States.</li> </ul>
<p><i>Domestic transactions, formatted as PPD transactions</i></p>

### Scenario C – Payroll:

A U.S.-domiciled company with 500 U.S.-resident employees is a subsidiary of an offshore multinational corporation (the parent company). The parent company has centralized many of the global treasury, human resources and data processing functions of its global subsidiaries (including the U.S. subsidiary) at its headquarters in Europe. It has also centralized many of its HR-related banking functions with an international bank headquartered in Europe.

Twice monthly, the U.S. subsidiary sends any changes to employee status, salaries, hours, etc. to the parent company. Also twice monthly, after updating its central HR records, the parent company sends payroll payment instructions for all 500 U.S. employees in a file to its international bank in Europe on behalf of the U.S. subsidiary.

Upon receipt of the payroll file for the U.S. subsidiary from the parent company, the European bank instructs the bank in New York via a SWIFT message (or proprietary system) to execute the following payment transactions:

- Originate an ACH file of 420 credit entries to pay 420 U.S. employees on settlement date, with a debit to the U.S. subsidiary's account at its New York bank totaling the sum of all 420 credit entries;
- Print and ship to the U.S. subsidiary 80 payroll checks (and 500 payroll stubs), drawn on the U.S. subsidiary's account at its New York bank, to pay those U.S. employees not on Direct Deposit.

### Result – Domestic or IAT?

All 420 ACH credits and the offsetting book-entry debit to the U.S. subsidiary's account in this scenario would be domestic transactions and not IATs. This is because no foreign financial institution/agency was involved in the payment transaction, which started with the parent company instructing its European bank to originate a SWIFT message to the New York bank with instructions to pay the employees. The European bank is not involved in the transaction as it did not debit or credit the parent company's account as part of the payment transaction. Nor did it serve as an intermediary in the settlement of the payment transaction. Instead, the European bank was only involved in the transmission of the SWIFT payment instruction. The SWIFT message specifically instructed the New York bank to debit the U.S. subsidiary's account and not the European bank's correspondent account at the bank in New York.

**Simplified Scenario C –  
U.S. Subsidiary of an Offshore  
Multinational Corporation**

- U.S. domiciled company
- No direct funding for the payroll from parent company. The funding is for general operating activities of the company and not for a specific ACH file. [Funding can be from U.S. company activities or received as part of a regular funding of the company activities by the parent on a daily, weekly, monthly basis for all check, wire transfer, card or ACH activity.]
- ACH file enveloped in a SWIFT message from a European bank to a U.S. bank that originates the file into the U.S. ACH Network
- All employees' ACH deposits are being sent to banks within the territorial jurisdiction of the United States

***Domestic transactions, formatted as PPD transactions. Even though the ACH payment instructions were sent via SWIFT message through a foreign financial agency, there were no funds sent into the country.***

**Scenario C – Alternative #1:**

*(changed circumstances in italics)*

A U.S.-domiciled company with 500 U.S.-resident employees is a subsidiary of an offshore multinational corporation (the parent company). The parent company has centralized many of the global treasury, human resources and data processing functions of its global subsidiaries (including the U.S. subsidiary) at its headquarters in Europe. The parent company has also centralized many of its HR-related banking functions with an international bank headquartered in Europe.

Twice monthly, the U.S. subsidiary sends the parent company any changes to employee status, salaries, hours, etc. Also twice monthly, after updating its central HR records, the parent company sends payroll payment instructions for all 500 U.S. resident employees in a file to its European bank on behalf of the U.S. subsidiary. *These instructions include a request to debit the parent company's account with the European bank to fund the payroll file on behalf of its U.S.-domiciled subsidiary.*

Upon receipt of the payroll file for the U.S. subsidiary from the parent company, the European bank debits the account of the parent company. It then sends a SWIFT message to the New York bank with instructions to:

- Credit its correspondent account at the New York bank on behalf of its U.S. subsidiary;

- Originate an ACH file of 420 credit entries to pay 420 U.S. employees on settlement date, with a debit to the U.S. subsidiary payroll settlement account at the New York bank totaling the sum value of all 420 credit entries;
- Print and ship 80 payroll checks (and 500 payroll stubs), drawn on the New York bank for the U.S. subsidiary, to pay those U.S. employees not on Direct Deposit.

**Result – Domestic or IAT?**

All 420 credit transactions would be IATs and not domestic. This is because the European bank is involved in the payment transaction by debiting the parent company's account in Europe and by serving as an intermediary in the settlement of the payment transaction as a result of funding the SWIFT message by debiting its correspondent account.

Similarly, if the payment instruction involved another funding mechanism, this scenario would result.

**Scenario C – Alternative #2:**

*(changed circumstances in italics)*

A U.S.-domiciled company with 500 U.S.-resident employees is a subsidiary of an offshore multinational corporation (the parent company). The parent company has centralized many of the global treasury, human resources and data processing functions of its global subsidiaries (including the U.S. subsidiary) at its headquarters in Europe. The parent company has also centralized many of its HR-related banking functions with a European bank also headquartered in Europe.

Twice monthly, the U.S. subsidiary sends the parent company any changes to employee status, salaries, hours, etc. Also twice monthly, after updating its central HR records, the parent company sends payroll payment instructions for all 500 U.S. employees in a file to their European bank on behalf of the U.S. subsidiary. The European bank maintains a correspondent banking relationship in the United States with a New York bank.

Upon receipt of the payroll file for the U.S. subsidiary from the parent company, the European

bank instructs its correspondent bank in New York via a SWIFT message (or proprietary system) to execute the following:

- *Debit the European bank's correspondent account at the New York bank in the amount of the sum of all 500 payroll payments and credit an account of the U.S. subsidiary for the payroll file;*
- Originate an ACH file of 420 credit entries to pay 420 U.S. employees on settlement date, with a debit to the account of the U.S. subsidiary payroll settlement account at the New York bank totaling the sum value of all 420 credit entries;
- Print and ship to the U.S. subsidiary 80 payroll checks (and 500 payroll stubs), drawn on the New York bank for the U.S. subsidiary, to pay those U.S. employees not on Direct Deposit.

#### Result – Domestic or IAT?

All 420 credit transactions would be IATs and not domestic. This is because the European bank is a foreign financial institution that is involved in the payment transaction in a number of ways. The European bank, which is the Originator's bank, is part of the settlement of the transaction with the New York bank by sending and funding the SWIFT message through correspondent banking.

Simplified Scenario C Alternative 1 and 2 – U.S. Subsidiary of an Offshore Multinational Corporation
<ul style="list-style-type: none"> <li>• U.S. domiciled company</li> <li>• Direct funding for the payroll file from the parent company through a foreign financial agency outside the territorial jurisdiction of the United States.</li> <li>• Payroll information, whether in SWIFT message, ACH file format, or proprietary format tied to the specific funding is sent to the companies U.S. bank.</li> <li>• All employees' ACH deposits are being sent to banks within the territorial jurisdiction of the United States through the ACH Network.</li> </ul>
<i>International transactions, formatted as IAT transactions</i>

#### Scenario D – Vendor Payments:

A U.S.-domiciled company is a subsidiary of an offshore multinational corporation (parent

company). The parent company has centralized many of the global treasury, human resources, and data processing functions of its global subsidiaries (including the U.S. subsidiary) at its headquarters in Europe.

All invoices for the U.S. subsidiary are sent to the parent company for processing and payment. Twice monthly, the parent company originates a file to its European bank to pay outstanding invoices for their U.S. subsidiary. The European bank instructs a New York bank via a SWIFT message (or proprietary system) to execute payment transactions on behalf of the parties. As in Scenario C and its alternatives, the payment instructions and related funding transactions may vary.

#### Result – Domestic or IAT?

This scenario and its various alternatives in terms of location of parties, funding and types of payment instructions are identical to Scenario C with the exception that the payments are commercial in nature and not consumer. Therefore, the determination of whether the commercial ACH transactions are domestic or IATs is the same.

Simplified Scenario D – Vendor Payments
<ul style="list-style-type: none"> <li>• Vendor payments would follow the logic associated with Scenarios A, B, &amp; C listed above.</li> <li>• See simplified scenarios above.</li> </ul>

#### Scenario E – ACH Debits for Payments to Foreign Receivers:

An offshore bank provides a service allowing Persons in the U.S. to send funds easily and economically to relatives or other Persons in the offshore bank's country of domicile. The Person using the service (Originator) logs onto a website and instructs the offshore bank (Originating Bank) to make a payment to anyone in that country. The Originator keys the following information into the website: Receivers name, physical address, banking information, and the Originator's own routing and transit number and account number of its domestic bank and physical address. The offshore bank originates a SWIFT payment

instruction to its U.S. correspondent bank in New York, requesting it to originate ACH debits to its Originators in the U.S. and to credit the offshore bank's correspondent account with the amount of the debits. The instruction contains the Receivers' name, address, and other necessary information. The New York bank converts the SWIFT payment instruction into an ACH file of debit entries.

#### Result – Domestic or IAT?

All the ACH debits originated by the New York bank on behalf of the offshore bank would be IATs and not domestic. The payment transactions involve Persons in the U.S. requesting the offshore bank to cause payment to be made to Persons in a foreign country. The offshore bank is involved in these transactions in a number of ways. First, it will ultimately credit (or instruct and fund another bank to credit) the accounts of the Receiver in the foreign country. Second, the offshore bank is involved as an intermediary in the settlement of the payment transaction, as its correspondent account at the New York bank is credited a part of the transactions.

#### Simplified Scenario E – ACH Debits for Payments to Foreign Receivers

- A foreign bank (Originating Bank) allows non-bank customers to make payments to consumers in their country.
- A person (Originator) in the U.S. logs on to the foreign bank site and orders a payment to a relative (Receiver) in that country, providing the bank with their routing and transit number (ABA number) and account number at their U.S. bank along with the routing, account number and physical address of the Receiver in the foreign country.
- The foreign Originating Bank sends a SWIFT message to their U.S. correspondent bank with instructions to send an ACH debit to the Originator's account at their U.S. bank along with the name and physical address of the Receiver in the foreign country.
- The U.S. bank processes the debit to the U.S. Originator's bank and credits the correspondent account at their bank for the foreign Originating Bank.
- The foreign Originating Bank sends a credit payment to the Receiver's account at the bank in their country.

*The debit to the Originator's account in the U.S. would be an IAT transaction because the funds are moving out of the U.S. to a foreign financial agency.*

#### Scenario F – Pension Payments:

A U.S.-domiciled company makes pension payments to 450 U.S.-resident retirees and 50 retirees residing offshore.<sup>6</sup> Twice monthly, the U.S. domiciled company sends pension payment instructions for all 500 retirees in a single file to its U.S. bank in Kansas City, where it holds an account. Upon receipt of the pension information from the U.S. company, the Kansas City bank executes the following payment transactions:

- Originates an ACH file of 420 credit entries to pay 420 U.S. retirees on settlement date, with an offsetting book-entry debit to the company's account at the Kansas City bank for the total of the sum value of all 420 credit entries.
- Twenty of 420 Direct Deposit payments are to retirees that reside offshore but have identified a domestic banking routing number and account number for pension payments.
- Ten of these 20 offshore retirees hold accounts with offshore banks (in their respective host country) that, in turn, have a U.S. office in New York (the routing number in each ACH pension transaction is that of the U.S. office of the offshore bank).
- The other 10 offshore retirees also hold accounts with offshore banks (in their respective host country) and these banks hold correspondent accounts with U.S. banks in New York (the routing number in each ACH pension transaction is that of the U.S. correspondent bank).
- Typically, the receiving bank (U.S.-domiciled office or correspondent bank) will have instructions on file to handle the transaction – either on a book-entry transfer relationship (U.S. office) or according to a correspondent posting routine such that the proceeds can ultimately be made available to the retiree (Receiver) in his resident country.
- Prints and ships to the U.S. company 80 pension checks (and 500 pension stubs), drawn on the company's account at the Kansas City bank,

<sup>6</sup>This scenario could also apply to Social Security benefit payments to domestic and offshore residents.



to pay those U.S. and offshore retirees not on Direct Deposit.

#### Result – Domestic or IAT?

Four hundred of the 420 ACH credits and the single, offsetting debit in this scenario would be domestic transactions and not IATs (the credits would be PPD entries; the debit typically would be an on-us DDA entry) because there are no foreign financial institutions involved in the transactions. Both the Originator's bank in Kansas City and the Receivers' banks are within the territorial jurisdiction of the U.S.

However, the 20 ACH entries to U.S. accounts for further crediting to offshore retirees would be IATs and not domestic, as they would all require an offshore bank to credit the Receivers' accounts. It is the employer's obligation to understand the legal domicile of its retirees and inquire whether they hold accounts in U.S. banks or with offshore financial institutions. The employer would have to recognize the need to provide the relevant information to the U.S. bank to facilitate origination of properly formatted IAT entries to its offshore retirees. Because the Receivers' accounts are held with offshore banks, despite being destined to U.S. bank accounts, the transactions would be IATs.

#### Scenario G – ACH Credit Payments to Foreign Receivers:

An offshore bank provides a service allowing companies in the U.S. to send funds easily and economically to companies in its country of domicile. The offshore bank holds a correspondent account with a New York bank that can receive ACH credit entries (with remittance data), with the offshore company as ultimate Receiver. At the end of the daily processing cycle, the New York bank sends to the offshore bank (1) a wire in the amount of the aggregate of the credits received/settled that day, and (2) an EDI file with the individual entry detail and remittance information. This enables the offshore bank to reconcile the settlement wire down to the customer level and provide each customer the requisite remittance detail for his or her individual payments.

#### Result – Domestic or IAT?

All of the ACH credits received by the New York bank on behalf of the offshore bank would be IAT and not domestic since the offshore bank holds accounts that would be credited as part of the transactions. Therefore, the offshore bank's offshore customers should instruct their U.S. trading partners to originate ACH entries using the IAT SEC code.

#### Scenario F – Pension Payments

- A U.S. domiciled company makes pension payments to retirees residing outside the territorial jurisdiction of the United States (expatriates) using Direct Deposit.
- For some of the expatriates, the company has instructions to send the funds through the ACH Network to a Gateway Operator, with further instructions to send to a financial agency in a foreign country.
- For the balance of the expatriates, when the Direct Deposit is being sent to domestic U.S. financial institutions consider the following questions:
  - Are the funds staying in the U.S. financial institution?  
**Should be a PPD transaction**
  - Or are there standing instructions to send the pension payment through various means to a foreign financial agency?  
**Should be IAT transaction**
  - Are the funds co-mingled with other funds, like Social Security, and then sent to another country?  
**Should be PPD transaction**

#### Simplified Scenario G – ACH Credit Payments (with Remittance Data) to Foreign Receivers

- A foreign bank offers a service in the United States to send credit payments to companies or individuals in its country of domicile.
- The credit payments and remittance data are sent to the foreign bank's U.S. correspondent via the ACH Network.
- At the end of the daily processing cycle, the U.S. correspondent credits the foreign bank's correspondent account with the funds consolidated during the day and sends an EDI file with the individual entry detail and remittance information.
- The foreign correspondent bank debits the U.S. correspondent bank's account on their books and sends the credit and the remittance information to the receiving company.

***The credit transactions going to the U.S. correspondent bank would be IAT transactions. The U.S. correspondent bank should instruct their correspondent to ensure that they format the transactions using the IAT SEC Code.***

### *Scenario H – Money Transmitters:*

A U.S.-domiciled money transmitter receives a payment order from a foreign customer at one of its foreign branch offices to send funds to a Receiver in the U.S. The money transmitter makes a book entry to record the transaction on the books of its offices in both countries, and creates an ACH credit entry to send the funds to the Receiver at the Receiver's bank (also in the U.S.).

### *Result – Domestic or IAT?*

The resulting ACH credit to the Receiver in the U.S. would be an IAT and not domestic because the foreign money transmitter is a financial agency that is involved in the transaction by accepting money directly from the Originator.

Simplified Scenario H – Money Transmitters
<ul style="list-style-type: none"> <li>• A money transmitter company receives a payment order from a customer (Originator) in a foreign branch office to send money via the ACH to a Receiver in the United States.</li> <li>• The money transmitter transfers the money via book entry to its U.S. branch office and originates the payment to the Receiver in the U.S. via the ACH Network.</li> </ul>
<p><i>The credit transaction to the U.S. Receiver would be an IAT entry.</i></p>

## **INBOUND IAT DEBIT PROCESSING PROCEDURES**

OFAC has provided NACHA with specific requirements and expectations regarding the handling of inbound IAT debit transactions. Under these requirements, a Gateway Operator that identifies the presence of a blocked party in an inbound IAT debit will cease processing the entry, and take several additional steps to report the violation to OFAC, the Foreign Gateway Operator, and the RDFI.

### ***ODFI/Gateway Operator Responsibilities for Inbound IAT Debit Transactions***

A financial institution acting as a Gateway Operator (ODFI) for Inbound IAT debit transactions should:

1. Review all Inbound IAT debit transactions for OFAC compliance, including all parties to the transaction and all remittance data;

2. Segregate any suspect transactions into an OFAC review module or queue;
3. Populate the Gateway Operator OFAC Screening Indicator (Field 10, IAT Entry Detail Record) for clean transactions with “0”; (NOTE: This field is Optional under the *NACHA Operating Rules*, but its use is strongly encouraged);
4. Rebalance original batch and file, if necessary and send to ACH Operator;
5. Investigate suspect transactions;
  - For a suspect transaction cleared by the investigation:
    - Populate the Gateway Operator OFAC Screening Indicator (Field 10, IAT Entry Detail Record) for clean transactions with “0”; (NOTE: This field is Optional under the *NACHA Operating Rules*, but its use is strongly encouraged);
    - Batch cleared transactions and send to the ACH Operator for normal processing and settlement.
  - For transactions confirmed as an OFAC hit:
    - Cease processing of the entry;
    - Notify the Foreign Gateway Operator that the debit entry has been rejected and is in violation of U.S. law.
    - Notify OFAC within 10 business days
    - Provide a copy of the payment transaction to the RDFI and advise it that the transaction destined for one of its customers has been rejected.

*Note:* Under these processing guidelines, a Gateway Operator will not send IAT debits to the ACH Operator when there is a “1” in the OFAC Screening Indicator field. All suspect transactions either will be cleared or will have their processing ceased.

### ***RDFI Responsibilities for Inbound IAT Debit Transactions***

RDFIs should recognize that they may receive IAT debit transactions and be prepared in advance to handle the IAT debits. The RDFI for Inbound IAT debit transactions should:



1. Review all incoming IAT debits for OFAC compliance;
2. Post clean transactions normally;
3. Investigate any suspect IAT debits;
4. For a suspect transaction cleared by an investigation, post normally;

For a suspect transaction confirmed as an OFAC hit – contact OFAC directly. The Gateway Operator may have missed this transaction or the OFAC list may have been revised. OFAC will handle these situations on a case-by-case basis.

If the RDFI receives notification from the Gateway Operator that a transaction has been rejected, this information should be included in any AML evaluation of the customer by the financial institution. Information on rejected transactions is being provided to the RDFI by the Gateway Operator at the request of OFAC.

NOTE: Under these processing guidelines, an RDFI should not receive IAT debits in which there is a “1” in the OFAC Screening Indicator field. This does not relieve the RDFI of its obligation to screen IAT debits that it receives.

## OFAC REQUIREMENTS FOR FINANCIAL INSTITUTIONS

OFAC has been very clear in its expectations of financial institutions with respect to the IAT entries. In a letter from R. Richard Newcomb, Director, Office of Foreign Asset Control dated March 9, 2004, OFAC stated that, for Inbound IAT entries, “U.S. RDFIs and beneficiaries will continue to have an obligation to ensure that all aspects of inbound, cross-border transactions are in compliance with OFAC regulations and to take appropriate steps to investigate, suspend, reject, block, and report on transactions as necessary.” For Outbound IAT entries, the “U.S. ODFIs and their Originators will continue to be responsible for ensuring that all parties to the transactions, as well as the underlying purpose of the transactions, are not in violation of OFAC regulations, and they will need to take appropriate steps to investigate, suspend, reject, block, and report on transactions.”

Below are key issues to consider with regard to OFAC compliance for international ACH transactions:

- All financial institutions are responsible for OFAC compliance.
- All financial institutions should have a written OFAC compliance policy.
- If a financial institution contracts with a third-party provider to do the actual OFAC review of the transactions, a financial institution cannot contract away its liability for OFAC compliance.

***For additional information on OFAC Compliance, see Chapter Three (OFAC Requirements and Obligations) of these Guidelines.***

## IAT MAPPING

The following example of Scenario F (which is discussed earlier in this chapter) is provided to assist ACH participants in understanding the mapping of mandatory data elements into the IAT addenda record structure. Complete formatting requirements and technical specifications for the IAT transaction can be located within the *NACHA Operating Rules*, and a chapter on mapping the full IAT format is included in the IAT Survival Guide.

### ***Example: Outbound Pension/Credit Transfer***

#### Scenario F – Pension Payments

Peanut Company makes pension payments to 400 U.S.-resident retirees and 50 retirees residing offshore. Twice monthly, Peanut Company sends pension payment instructions for 400 retirees in a single file to Bank of Bluemont, where it holds an account. Upon receipt of the pension information from Peanut Company, Bank of Bluemont executes the following payment transactions:

- Originates an ACH file of 400 credit entries to pay 400 U.S. retirees on settlement date, with an offsetting debit entry to the Peanut Company's account at the Bank of Bluemont for the total of the sum value of all 400 credit entries.
- For the 50 retirees residing offshore, Peanut Company uses three payment methodologies:

(1) originate a direct deposit entry to the pensioner's account in the foreign country; (2) initiate a direct deposit entry to a U.S. bank account and routing number for further credit to the pensioner's account in the foreign country; or (3) mail a check to the pensioner.

Scenario F-1, below, illustrates the mapping of a payment when the Originator has specific information identifying the foreign financial institution to which the Receiver's funds are to be directed. In some cases, an Originator may possess only domestic banking information for the Receiver, even though it knows that the funds will ultimately flow out of the country. In still other situations, the Originator may not have sufficient information to know whether funds will flow internationally or not. Scenarios F-2 and F-3 illustrate how formatting of IAT transactions would vary in these situations.

**Scenario F-1:**

Susan Smith resides in Barcelona, Spain and receives her pension payments to her checking account at BBVA in Barcelona. Peanut Company has Susan's foreign bank information on file and originates an IAT entry through a Gateway Operator.

*Parties to the Transaction:*

Originator: Peanut Company  
8916 Riverbend Road  
Atlanta, GA 30666  
Originator Identification Number:  
395468717

ODFI: Bank of Bluemont  
Routing Number – 345 67 891

Gateway Operator/RDFI: Trust Bank  
Routing Number  
– 123 45 678

Receiver: Susan Smith  
14 Calle de Cortez  
Barcelona, Spain  
Pension amount: \$1,050.00  
Account Number: 450200051332

Foreign RDFI: BBVA  
1849 Avenida de las Americas  
Barcelona, Spain  
Routing Number:  
9121000418450

**ALL ENTRIES FILE HEADER RECORD  
(Scenario F)**

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	PRIORITY CODE	IMMEDIATE DESTINATION	IMMEDIATE ORIGIN	FILE CREATION DATE	FILE CREATION TIME	FILE ID MODIFIER	RECORD SIZE	BLOCKING FACTOR	FORMAT CODE	IMMEDIATE DESTINATION NAME	IMMEDIATE ORIGIN NAME	REFERENCE CODE
Field Inclusion Requirement	M	R	M	M	M	O	M	M	M	M	O	O	O
Contents	'1'	Numeric	bTTTTAAAC	bTTTTAAAC	YYMMDD	HHMM	UPPER CASE A-Z NUMERIC 0-9	'094'	'10'	'1'	Alphameric	Alphameric	Alphameric
Length	1	2	10	10	6	4	1	3	2	1	23	23	8
Position	01-01	02-03	04-13	14-23	24-29	30-33	34-34	35-37	38-39	40-40	41-63	64-86	87-94
EXAMPLE	'1'	01	051000033	34567891	091102	0935	A	'094'	'10'	'1'	TCB SERVICES	BANK OF BLUEMONT	

**File Header Record – Original Entry**

**Key Fields:**

**Immediate Destination**

The Immediate Destination Field identifies the party to which the file is being delivered. In Scenario F, this field contains the Routing Number of the ACH Operator – TCB Services.

**Immediate Origin**

The Immediate Origin Field identifies the sender of the file. In this example, this field contains the Routing Number of the ODFI – Bank of Bluemont.

**File Creation Date and File Creation Time**

The File Creation Date is '091102,' the date on which the file is prepared by Bank of Bluemont. The File Creation Time is 0935, representing the time in hours and minutes that the creation or exchange took place.

**File ID Modifier**

The File ID Modifier is 'A' because it is the first file that Trust Bank is delivering to its ACH Operator (TCB Services) on November 2nd. Subsequent files, if any, would be labeled 'B,' 'C,' etc. The File ID Modifier, coupled with the File Creation Date and Time, can be used by the ODFI, along with other information, to trace the file.

### IAT COMPANY/BATCH HEADER RECORD FOR IAT ENTRIES

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	IAT INDICATOR	FOREIGN EXCHANGE INDICATOR	FOREIGN EXCHANGE REFERENCE INDICATOR	FOREIGN EXCHANGE REFERENCE	ISO DESTINATION COUNTRY CODE	ORIGINATOR IDENTIFICATION	STANDARD ENTRY CLASS CODE	COMPANY ENTRY DESCRIPTION	ISO ORIGINATING CURRENCY CODE	ISO DESTINATION CURRENCY CODE	EFFECTIVE ENTRY DATE	SETTLEMENT DATE (JULIAN)	ORIGINATOR STATUS CODE	GO IDENTIFICATION/ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
Field Inclusion Requirement	M	M	O	M	R	R	M	M	M	M	M	M	R	Inserted by ACH Operator	M	M	M
Contents	'S'	Numeric	Alphameric	Alphameric	Numeric	Alphameric	Alphameric	Alphameric	Alphameric	Alphameric	Alphameric	Alphameric	YYMMDD	Numeric	Alphameric	TTTTAAAA	Numeric
Length	1	3	16	2	1	15	2	10	3	10	3	3	6	3	1	8	7
Position	01-01	02-04	05-20	21-22	23-23	24-38	39-40	41-50	51-53	54-63	64-66	67-69	70-75	76-78	79-79	80-87	88-94
Example	'S'	200		FF	3		ES	395468717	IAT	PENSION	USD	USD	091103		1	34567891	0000001

#### Company/Batch Header Record – Original Entry

##### Key Fields:

##### Originator Identification

The Originator Identification field carries the Originator's unique identification number. In the case of IAT Entries where the Originator is not a natural person, this field must contain the IRS Taxpayer Identification Number (TIN) of the Originator identified in the Originator Name Field. For an Originator that is not a natural Person, this field must contain the IRS Taxpayer Identification Number (TIN) of the Originator identified in the Originator Name Field. For an Originator that is not a natural Person and is not established or organized under the laws of a State or the United States, this field must contain the account number belonging to the Originator (as identified in the Originator Name field) at the foreign financial institution. If this number exceeds 9 characters, this field must contain the last 9 characters of the account number belonging to the Originator at the foreign financial institution. If the foreign account number contains 9 or fewer characters, the entire account number must be utilized.

The Originator Identification may be preceded by a one-digit alphameric code, as established between the ODFI and the Originator, for further identification of the Originator to the ODFI. When used, this code must appear in the first position of this field, followed by the Originator Identification, as defined above.

When the ODFI has a contractual relationship with a Third-Party Sender rather than the Originator itself, the value of this field may identify either the Originator or the Third-Party Sender.

In this example, the Originator Identification Field contains the Originator's (Peanut Company's) Taxpayer Identification Number.

##### Standard Entry Class Code

The SEC Code distinguishes the various types of ACH Entries. In this example, the SEC Code is 'IAT' because flow of funds and the payment instructions are destined to a financial institution outside the United States.

##### Company Entry Description

The Company Entry Description provides a description of the entry that is displayed on the employee's statement when the payment is posted. In this example, Peanut Company has identified this transaction as a pension payment.

##### Effective Entry Date

The Effective Entry Date is the date specified by Peanut Company as the day on which its pensioners should be paid.

##### Settlement Date

The Settlement Date (Julian Date) is the date on which the ODFI and RDFI are debited or credited by the Federal Reserve. The Settlement Date is inserted by the ACH Operator and, therefore, is left blank in this example. Assuming that the file is delivered appropriately on November 2, the Settlement Date for this batch would be '307,' the Julian Date equivalent for November 3rd.

##### GO Identification/Originating DFI Identification

The GO/Originating DFI Identification field carries Bank of Bluemont's Routing Number.

##### ISO Destination Country Code, ISO Originating Currency Code, and ISO Destination Currency Code

Refer to the International Organization for Standardization's website at [www.iso.org](http://www.iso.org) for ISO currency and country code values.

### IAT ENTRY DETAIL RECORD

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	GO IDENTIFICATION/RECEIVING DFI IDENTIFICATION	CHECK DIGIT	NUMBER OF ADDENDA RECORDS	RESERVED	AMOUNT	FOREIGN RECEIVER'S ACCOUNT NUMBER/DFI ACCOUNT NUMBER	RESERVED	GATEWAY OPERATOR OFAC SCREENING INDICATOR	SECONDARY OFAC SCREENING INDICATOR	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	M	N/A	M	M	N/A	O	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Numeric	Blank	\$\$\$\$\$\$\$e	Alphameric	Blank	Alphameric	Alphameric	Numeric	Numeric
Length	1	2	8	1	4	13	10	35	2	1	1	1	15
Position	01-01	02-03	04-11	12-12	13-16	17-29	30-39	40-74	75-76	77-77	78-78	79-79	80-94
EXAMPLE	'6'	22	12345678	0	0007		0000105000	450200051332				1	345678910000367

### Entry Detail Record – Original Entry

#### Key Fields:

#### Transaction Code

The transaction code is used to direct the payment to a specific type of account (i.e., checking, savings, loan, or general, ledger) and indicates whether the payment is a debit or credit. In this example, a '22' indicates a credit to the pensioner's checking account.

#### GO Identification/Receiving DFI Identification

For Outbound IAT Entries, this field contains the Routing Number of the U.S. Gateway Operator. In this example, this field contains the routing number of Trust Bank, which is acting as the Gateway Operator.

#### Foreign Receiver's Account Number/DFI Account Number

For Outbound IAT Entries, this field contains the foreign Receiver's account number. In this example, this field contains Susan Smith's account number at BBVA in Spain, '450200051332.'

#### Amount

This field contains the dollar amount of the entry in U.S. dollars.

#### Gateway Operator OFAC Screening Indicator

This field indicates the results of a Gateway Operator screen for OFAC compliance. A value of '0' indicates that the Gateway Operator has not found a potential blocked party, as identified by OFAC on its list of Specially Designated Nationals (SDN list). A value of '1' indicates the potential presence of a blocked party. On an Outbound IAT Entry, this field will be left blank.

#### Trace Number

The Trace Number is assigned by the ODFI in ascending sequence and uniquely identifies each entry within a batch. The first eight digits of the Trace Number are always the Routing Number of the Gateway Operator/ODFI entering the transaction into the Network. In association with the File Creation Date, File ID Modifier, and other information, the Trace Number can be used to trace an entry through the ACH Network. Throughout the entire processing cycle (from GO/ODFI to RDFI), the Trace Number is retained with the entry record. The Trace Number is critical in routing return entries and notifications of change back to the ODFI through the ACH Network.

**FIRST IAT ADDENDA RECORD**

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	TRANSACTION TYPE CODE	FOREIGN PAYMENT AMOUNT	FOREIGN TRACE NUMBER	RECEIVING COMPANY NAME/INDIVIDUAL NAME	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	R	R	O	M	N/A	M
Contents	'7'	'10'	Alphanumeric	\$\$\$\$\$\$\$\$\$\$\$\$\$€	Alphanumeric	Alphanumeric	Blank	Numeric
Length	1	2	3	18	22	35	6	7
Position	01-01	02-03	04-06	07-24	25-46	47-81	82-87	88-94
Example	'7'	'10'	PEN	000000000000105000		SUSAN SMITH		0000367

**First IAT Addenda Record – Original Entry**

**Key Fields:**

**Transaction Type Code**

This field contains a three-character code used to identify the type of transaction. In this example, this field contains 'PEN' to identify a pension payment.

**Foreign Payment Amount**

For Outbound IAT Entries originated using a Foreign Exchange Indicator of "FV" (fixed-to-variable), this field is zero-filled. For Outbound IAT Entries using a Foreign Exchange Indicator of "VF" (variable-to-fixed) or "FF" (fixed-to-fixed), this field contains the amount for which the entry is to be received by the Foreign Receiver in the currency denomination expressed in the ISO Destination Currency Code Field of the Company/Batch Header Record. In this fixed-to-fixed example, this is the amount of the credit to Susan Smith's account in US dollars.

**Receiving Company Name/Individual Name**

This field contains the name of the Receiver. In this example, this field identifies the pensioner, Susan Smith.

**Entry Detail Sequence Number**

This field contains the ascending sequence number section of the Entry Detail Record's trace number. This number is the same as the last seven digits of the trace number of the related Entry Detail Record. In this example, the entry detail sequence number is '0000367.'



### SECOND IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	ORIGINATOR NAME	ORIGINATOR STREET ADDRESS	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	N/A	M
Contents	'7'	'11'	Alphanumeric	Alphanumeric	Blank	Numeric
Length	1	2	35	35	14	7
Position	01-01	02-03	04-38	39-73	74-87	88-94
Example	'7'	'11'	PEANUT COMPANY	8916 RIVERBEND ROAD		0000367

### THIRD IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	ORIGINATOR CITY & STATE/PROVINCE	ORIGINATOR COUNTRY & POSTAL CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	N/A	M
Contents	'7'	'12'	Alphanumeric	Alphanumeric	Blank	Numeric
Length	1	2	35	35	14	7
Position	01-01	02-03	04-38	39-73	74-87	88-94
Example	'7'	'12'	ATLANTA*GA\	US*30666\		0000367

### Second and Third IAT Addenda Records – Original Entry

#### Key Fields:

#### Originator Name

This field contains the name of the Originator of the transaction, Peanut Company.

#### Originator Street Address

This field contains Peanut Company's physical street address, '8916 Riverbend Road.'

#### Originator City and State or Province

This field contains the city and, if applicable, the state or province of the Originator. Asterisks must be used to separate the data elements, and the last data element must be followed by a backslash. This example identifies 'ATLANTA\*GA\' for the city and state in which Peanut Company is located.

*Note:* In some cases, a defined data element may be unknown or may not be applicable. When the missing data element occurs last — in this example, if no state or province were available —

the backslash should immediately follow the last known data element (e.g., 'ATLANTA\'). When the missing data element occurs before another data element — in this example, if the city were not available — an asterisk should be used as a place holder for the missing data element, followed by the next data element (e.g., '\*GA\').

#### Originator Country and Postal Code

This field identifies Peanut Company's country and postal code, 'US\*30666\'. Data elements must be separated by an asterisk and must end with a backslash.

*Note:* Where the country is known but the postal code is unavailable, the country should appear, immediately followed by a backslash (e.g., 'US\'). Where the country is not available but the postal code is present, an asterisk should be used as a place holder, followed by the postal code and backslash (e.g., '\*30666\').

FOURTH IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	ORIGINATING DFI NAME	ORIGINATING DFI IDENTIFICATION NUMBER QUALIFIER	ORIGINATING DFI IDENTIFICATION	ORIGINATING DFI BRANCH COUNTRY CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	M	M	N/A	M
Contents	'7'	'13'	Alphameric	Alphameric	Alphameric	Alphameric	Blank	Numeric
Length	1	2	35	2	34	3	10	7
Position	01-01	02-03	04-38	39-40	41-74	75-77	78-87	88-94
Example	'7'	'13'	BANK OF BLUEMONT	01	34567891	US		0000367

**Fourth IAT Addenda Records –  
Original Entry**

**Key Fields:**

**Originating DFI Name**

On an Outbound IAT entry, this field contains the name of the US ODFI, Bank of Bluemont.

**Originating DFI Identification Number Qualifier**

This field contains a 2-digit code that identifies the numbering scheme used in the Originating DFI Identification Number Field. In this example, '01' identifies that the numbering scheme used for the Bank of Bluemont as a National Clearing System Number.

**Originating DFI Identification**

For Outbound IAT Entries, this field contains the routing number of the US ODFI. In this example, the Bank of Bluemont's routing number is '34567891.'

**Originating DFI Branch Country Code**

This field contains a 2-digit code, as approved by the International Organization for Standardization, used to identify the country in which the branch of the bank that originated the entry is located. On an Outbound IAT Entry, this field will contain 'US.'

### FIFTH IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	RECEIVING DFI NAME	RECEIVING DFI IDENTIFICATION NUMBER QUALIFIER	RECEIVING DFI IDENTIFICATION	RECEIVING DFI BRANCH COUNTRY CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	M	M	N/A	M
Contents	'7'	'14'	Alphanumeric	Alphanumeric	Alphanumeric	Alphanumeric	Blank	Numeric
Length	1	2	35	2	34	3	10	7
Position	01-01	02-03	04-38	39-40	41-74	75-77	78-87	88-94
Example	'7'	'14'	BBVA	03	9121000418450	ES		0000367

#### ***Fifth IAT Addenda Record – Original Entry***

##### ***Key Fields:***

##### **Receiving DFI Name**

This field contains the name of the Receiving DFI holding the Receiver's account. In an Outbound IAT Entry, this field will identify the name of the foreign RDFI - in this example, BBVA.

##### **Receiving DFI Identification Number Qualifier**

This field contains a 2-digit code that identifies the numbering scheme used in the Receiving DFI Identification Number Field. In this example, '03' identifies BBVA's identification number as an IBAN.

##### **Receiving DFI Identification**

This field contains the bank identification number of the DFI at which the Receiver maintains his account. For Outbound IAT Entries, this field contains the bank identification number of the foreign RDFI. In this example, BBVA's bank identification number is '9121000418450.'

##### **Receiving DFI Branch Country Code**

This field contains a 2-digit code, as approved by the International Organization for Standardization, used to identify the country in which the branch of the bank that receives the entry is located. In this example, 'ES' identifies Spain as the location of the BBVA branch at which Susan Smith's account is located.

### SIXTH IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	RECEIVER IDENTIFICATION NUMBER	RECEIVER STREET ADDRESS	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	N/A	M
Contents	'7'	'15'	Alphameric	Alphameric	Blank	Numeric
Length	1	2	15	35	34	7
Position	01-01	02-03	04-18	19-53	54-87	88-94
Example	'7'	'15'	SM18362-28	14 CALLE DE CORTEZ		0000367

### SEVENTH IAT ADDENDA RECORD

FIELD	1	2	3	4	5	6
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	RECEIVER CITY & STATE/PROVINCE	RECEIVER COUNTRY & POSTAL CODE	RESERVED	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	M	M	N/A	M
Contents	'7'	'16'	Alphameric	Alphameric	Blank	Numeric
Length	1	2	35	35	14	7
Position	01-01	02-03	04-38	39-73	74-87	88-94
Example	'7'	'16'	BARCELONA\	ES*28001\		0000367

### Sixth and Seventh IAT Addenda Records – Original Entry

#### Key Fields:

#### Receiver Identification Number

This field may be used by the Originator to insert its own number for tracing purposes. In this example, “SM18362-28” is Susan Smith’s identification number at Peanut Company.

#### Receiver Street Address

This field contains the Receiver’s (Susan Smith’s) physical street address, ‘14 CALLE DE CORTEZ.’

#### Receiver City and State or Province

This field contains the city and, if applicable, the state or province of the Receiver. Asterisks must be used to separate the data elements, and the last data element must be followed by a backslash. This example identifies ‘BARCELONA\’ as the city in which Susan Smith resides. In this example, no province is indicated for the city of Barcelona.

#### Receiver Country and Postal Code

This field identifies Susan Smith’s country code, ‘ES\*28001\’.

### ALL ENTRIES COMPANY/BATCH CONTROL RECORD (F)

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	SERVICE CLASS CODE	ENTRY/ ADDENDA COUNT	ENTRY HASH	TOTAL DEBIT ENTRY DOLLAR AMOUNT	TOTAL CREDIT ENTRY DOLLAR AMOUNT	COMPANY IDENTIFICATION	MESSAGE AUTHENTICATION CODE	RESERVED	ORIGINATING DFI IDENTIFICATION	BATCH NUMBER
Field Inclusion Requirement	M	M	M	M	M	M	R	O	N/A	M	M
Contents	'8'	Numeric	Numeric	Numeric	\$\$\$\$\$\$\$\$\$€	\$\$\$\$\$\$\$\$\$€	Alphanumeric	Alphanumeric	Blank	TTTTAAAA	Numeric
Length	1	3	6	10	12	12	10	19	6	8	7
Position	01-01	02-04	05-10	11-20	21-32	33-44	45-54	55-73	74-79	80-87	88-94
Example	'8'	200	0000008	0012345678	000000000000	000000105000	395468717			34567891	0000367

#### Company/Batch Control Record – Original Entry

##### Key Fields:

##### Entry/Addenda Count

The Entry/Addenda Count Field is a tally of each Entry Detail and Addenda Record processed within the batch. In this example, one Entry Detail Record and seven Addenda Records were used.

##### Entry Hash

This field is prepared by hashing the 8-digit Routing Number in each entry. The Entry Hash provides a check against inadvertent alteration of data contents due to hardware or program failure.

##### Total Debit and Credit Entry Dollar Amounts

The Total Debit and Credit Entry Dollar Amount fields contain accumulated Entry Detail debit and credit totals within a given batch. In this example, the Total Credit Entry Dollar Amount is \$1050.00, and the Total Debit Entry Dollar Amount is \$0.00 because no debits were originated within the batch.

##### Company Identification

This field conveys the same information that is contained within the Originator Identification Field of the Company/Batch Header Record.

##### Originating DFI Identification

The Originating DFI Identification Field carries the same information that is carried in the GO Identification/Originating DFI Identification Field of the Company/Batch Header Record.

ALL ENTRIES FILE CONTROL RECORD (F)

FIELD	1	2	3	4	5	6	7	8
DATA ELEMENT NAME	RECORD TYPE CODE	BATCH COUNT	BLOCK COUNT	ENTRY/ADDENDA COUNT	ENTRY HASH	TOTAL DEBIT ENTRY DOLLAR AMOUNT IN FILE	TOTAL CREDIT ENTRY DOLLAR AMOUNT IN FILE	RESERVED
Field Inclusion Requirement	M	M	M	M	M	M	M	N/A
Contents	'9'	Numeric	Numeric	Numeric	Numeric	\$\$\$\$\$\$\$\$\$e	\$\$\$\$\$\$\$\$\$e	Blank
Length	1	6	6	8	10	12	12	39
Position	01-01	02-07	08-13	14-21	22-31	32-43	44-55	56-94
EXAMPLE	'9'	000001	000002	0000008	0012345678	000000000000	000000105000	

**File Control Record – Original Entry**

**Key Fields:**

**Batch Count**

The value of the Batch Count Field is equal to the number of Company/Batch/Header Records in the file. In this example, the value is '1.'

**Entry Hash**

This field is prepared by hashing the RDFI's 8-digit Routing Number in each entry. The Entry Hash provides a check against inadvertent alteration of data contents due to hardware or program failure.

**Total Debit and Credit Dollar Amount in File**

The Total Debit and Credit Entry Dollar Amounts Fields contain accumulated Entry Detail debit and credit totals within the file. In this example, the Total Debit Entry Dollar Amount is \$0.00, and the Total Credit Entry Dollar Amount is \$1050.00.



### Scenario F-2

Susan Smith resides in Barcelona, Spain. Peanut Company knows that Susan's pension funds will be moved internationally and formats the transaction as an IAT entry. However, Susan's banking information on file with Peanut Company identifies a domestic account at BBVA in Miami. BBVA has a standing instruction from Susan (separate from the IAT transaction) to further credit the funds to her BBVA account in Barcelona through a book entry transfer.

In this model, the mapping of the payment information is identical to the mapping of Susan's payment in Scenario F-1, above, with the following exceptions:

#### ***IAT Company/Batch Header Record***

The values of the fields within the Company/Batch Header Record remain unchanged from those defined earlier for Scenario F-1. In this scenario, the ISO Destination Country Code is also populated with 'ES' because the Originator knows that the funds will ultimately be forwarded to a Receiving DFI located in Spain.

#### ***IAT Entry Detail Record***

- *GO/Receiving DFI Identification* – BBVA Miami's routing number (rather than Trust Bank's) is identified within this field.
- *Check Digit* – The check digit for BBVA Miami's routing number (rather than Trust Bank's) is identified within this field.
- *Foreign Receiver's Account Number/DFI Account Number* – This field contains a domestic account number at BBVA Miami rather than Susan's BBVA account number in Barcelona, Spain.

#### ***Fifth IAT Addenda Record***

- *Receiving DFI Name* – This field contains the name of the Receiving DFI holding the Receiver's account. In Scenario F-2, this field identifies the name of the domestic RDFI (BBVA Miami) rather than BBVA in Spain.

- *Receiving DFI Identification Number Qualifier* – This field contains '01' to identify BBVA Miami's identification number as National Clearing Number (US routing number) rather than BBVA Spain's national clearing system number.
- *Receiving DFI Identification* – This field contains the bank identification number of the DFI at which the Receiver maintains his account. For Outbound IAT Entries, this field contains the bank identification number of the foreign RDFI. In this example, this field is populated with BBVA Miami's routing number.'
- *Receiving DFI Branch Country Code* – This field is populated with the value 'US' to identify the United States as the country in which the RDFI, BBVA Miami, is located.

*Note:* For Scenario F-2, the contents of all other records comprising the IAT Entry (Addenda Records 1-4, 6, and 7) remain unchanged from those illustrated in Scenario F-1.

### Scenario F-3

Susan Smith, who resides in Barcelona, Spain, has requested that Peanut Company deposit her pension funds into a domestic bank account at BBVA in Miami. Susan's address on record with Peanut Company is a foreign one, and Peanut Company does not know whether or not Susan's funds will be moved out of the country. Peanut Company could (1) contact Susan and confirm whether she intends for the funds to remain at an account in the U.S. or whether she plans to transfer the money to an account in Spain, or (2) format the entry as an IAT transaction. In this example, Peanut Company has chosen to err on the side of caution and code the transaction as an IAT entry to ensure its compliance with OFAC sanctions policies. The mapping of the IAT payment information is identical to the earlier mapping of Susan's payment in Scenario F(1), with the following exceptions:

#### ***IAT Company/Batch Header Record***

- *ISO Destination Country Code* – In Scenario F-3, the ISO Destination Country Code would be populated with the value 'US.'

### ***IAT Entry Detail Record***

- *GO/Receiving DFI Identification* – BBVA Miami's routing number (rather than Trust Bank's) is identified within this field.
- *Check Digit* – The check digit for BBVA Miami's routing number (rather than Trust Bank's) is identified within this field.
- *Foreign Receiver's Account Number/DFI Account Number* – This field contains a domestic account number at BBVA Miami rather than Susan's BBVA account number in Barcelona, Spain.

### ***Fifth IAT Addenda Record***

- *Receiving DFI Name* – This field contains the name of the Receiving DFI holding the Receiver's account. In Scenario F-2, this field identifies the name of the domestic RDFI (BBVA Miami) rather than BBVA in Spain.
- *Receiving DFI Identification Number Qualifier* – This field contains '01' to identify BBVA Miami's identification number as National Clearing Number (US routing number) rather than BBVA Spain's IBAN.
- *Receiving DFI Identification* – This field contains the bank identification number of the DFI at which the Receiver maintains his account. For Outbound IAT Entries, this field contains the bank identification number of the foreign RDFI. In this example, this field is populated with BBVA Miami's routing number.'
- *Receiving DFI Branch Country Code* – This field is populated with the value 'US' to identify the United States as the country in which the RDFI, BBVA Miami, is located.

*Note:* For Scenario F-3, the contents of all other records comprising the IAT Entry (Addenda Records 1-4, 6, and 7) remain unchanged from those illustrated in Scenario F-1.

## **CHAPTER 44**

### **Point of Purchase Entries (POP)**

A Point of Purchase Entry (POP) is a Single-Entry ACH debit originated based on an eligible source document provided to an Originator by a Receiver at the point-of-purchase or manned bill payment location for conversion at that location. This application provides Originators with an alternative to processing Receivers' checks as the method of payment. This chapter addresses issues relating to the origination and receipt of POP Entries.

POP entries are considered to be ACH entries from start to finish, with the Receiver's check used by the Originator solely as a source document for the Receiver's routing and account number information. Such transactions are not considered to be truncated checks and do not fall under the requirements of check law or the Uniform Commercial Code for the following reasons:

1. the check is not accepted by the merchant as a negotiable instrument; and
2. the check is not negotiated by the merchant or accepted into the check collection system.

### **INITIATING A POP ENTRY — AN OVERVIEW**

- An Originator provides notice that a check received for payment will be converted to an electronic funds transfer.
- To initiate a POP entry, the Receiver must present an eligible source document (check) that has not been previously voided or negotiated to the Originator at time of payment, usually at a cash register or other checkout location.
  - The check need not be completed or signed by the Receiver.
- The Originator must use a check reading device to capture MICR information from the check (i.e., routing number, account number, and serial number), which is used by the Originator

to generate a debit entry to the Receiver's account. The Originator may not key enter the MICR information from the check, nor may the Originator key enter the MICR information after the check reader has captured this data, except due to a misread or capture error.

- The Originator then key enters the amount of the transaction.
- An authorization is provided to the Receiver to sign, authorizing the debit to the Receiver's account.
- The Originator must provide to the Receiver (1) the source document, which the Originator has voided, (2) a copy of the authorization, and (3) a receipt containing specific information relating to the purchase.

## SOURCE DOCUMENTS

Originators may accept a check as an eligible source document for a POP debit entry only if the check is presented at the point-of-purchase or a manned bill payment location.

The *Rules* governing POP entries define specific eligibility requirements and limits on the types of source documents that may be converted.

***For a detailed list of eligibility criteria for check conversion entries, refer to the Source Document Eligibility Charts in Appendix E of these Guidelines, or to the definition of Eligible Source Document in Article Eight of the Rules.***

## ACH DATA SECURITY REQUIREMENTS

The *NACHA Operating Rules* impose specific data security requirements for all ACH transactions that involve the exchange or transmission of banking information (which includes, but is not limited to, an entry, entry data, a routing number, an account number, and a PIN or other identification symbol) via an Unsecured Electronic Network.

***ACH participants must abide by these requirements which are discussed in detail in Chapter 4 of these Guidelines.***

## OBLIGATIONS OF ORIGINATORS

### ***Agreements with ODFIs***

Originators choosing to utilize the ACH Network for initiating POP transactions should consider modifications to their agreements with their ODFIs to address the origination of these entries.

These modifications could, for example, address the extent to which the Originator and ODFI share liability for the following warranties as they apply to the origination of POP entries:

- The Originator must initially use a reading device to capture the Receiver's routing number, account number, and check serial number from the MICR line of the Receiver's eligible source document.
  - Such information may not be key-entered by the Originator except to correct errors from MICR misreads or processing rejects.
- The Originator must void the eligible source document at the time of the transaction and return it to the Receiver.
  - The source document may not have been used for a prior POP entry.
- The Originator must retain the original or a copy of the Receiver's authorization for two years from the Settlement Date of the POP entry.
  - Upon receipt of an RDFI's written request, the ODFI must provide such copy to the RDFI within ten banking days. Originators must be prepared to provide such copies to their ODFIs for this purpose.
- The Originator must provide the Receiver a receipt containing the following information for each POP entry to the Receiver's account.
  1. Originator name
  2. Company/third-party service provider phone number for inquiries
  3. date of transaction

4. transaction amount
5. check serial number of the eligible source document
6. merchant number (or other unique number that identifies the location of the transaction)
7. terminal city
8. terminal state
- The *Rules* do not require, but it is strongly recommended, that the Originator also provide the following information on the receipt provided to the Receiver:
  9. merchant address
  10. merchant identification number
  11. Receiver's financial institution routing number
  12. Receiver's truncated account number
  13. Receiver's truncated identification number
    - The Originator must not place the Receiver's complete account number or complete identification number on the receipt
  14. Transaction reference number
- The Originator must employ commercially reasonable methods to securely store all banking information relating to POP entries.

***For more information on agreements, refer to Chapter 15 within these Guidelines.***

#### ***Authorization/Notification Requirements***

Originators are required to provide notice to the Receiver and to obtain a written authorization from the Receiver to satisfy the authorization requirement for a POP entry. The provision of the notice by the Originator to the Receiver, the receipt of the source document and the written authorization from the Receiver together constitute authorization for the POP entry. The

check is used solely as a source document for capturing the Receiver's routing number, account number, and check serial number for the entry. The rules governing POP incorporate Regulation E safe harbor language into the required notice, requiring that the notice include the following, or substantially similar, language:

“When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction.”

The Originator must post the notice in a prominent and conspicuous location and a copy of such notice, or similar language, must be provided to the Receiver at the time of the transaction.

At the Originator's discretion, the receipt and the authorization required for POP Entries may be provided to the Receiver on the same document or on different documents

Note: Originators should be aware that some Receivers may choose to opt out of check conversion activity by declining to sign a written authorization at the point of purchase. In other cases, Receivers may have chosen to opt out of check conversion activity by having their checks reprinted to include an Auxiliary On-Us Field in the MICR line. In both of these situations, Originators may not convert the check to a POP entry and are encouraged to work with these customers to establish alternative payment methods.

#### ***Collection of Return Fees***

An Originator desiring to use the ACH Network to collect a Return Fee from a Receiver must originate a separate Return Fee Entry using the appropriate Standard Entry Class Code and must follow all rules governing the origination of Return Fee Entries. For specific information on Return Fee Entries, please refer to Chapter 54 in the Special Topics section of these Guidelines.

Originators need to be aware that the requirements of the *NACHA Operating Rules* regarding the origination of Return Fee Entries are in addition to



any requirements required by applicable state law governing Return Fees. Originators are responsible for determining what the applicable state laws are, if any, for each of their check-accepting locations that intend to, or may, use the POP application.

In addition, the authorization for the conversion of the check does not include authorization for any Return Fee Entry that may become necessary to collect the check unless the authorization specifically includes appropriate language covering such fees.

### **Formatting Requirements**

#### *Dollar Amount*

POP entries must be originated for amounts of \$25,000 or less.

#### *Company Name*

Originators must ensure that the name of the Originator appears within the Company Name Field of the Company/Batch Header Record of the POP entry. The contents of this field are provided to the Receiver for descriptive purposes by the RDFI, and must be formatted in such a manner that the Receiver can easily recognize the Originator of the payment (e.g., a trading as or doing business as name, etc.). Originators should be aware that the Receiver looks for a familiar name to identify the transaction; if the Receiver does not recognize the Company Name as presented on his statement, the Receiver may instruct his RDFI to return the transaction as unauthorized.

#### *Check Serial Number*

The rules governing POP entries require that the Originator ensure that the check serial number from the Receiver's source document is placed within the Check Serial Number Field of the POP Entry Detail Record. The *NACHA Operating Rules* permit Originators to place only the check serial number within the Check Serial Number Field of the POP Entry Detail Record. That is, the word "check," abbreviations such as "ck" or "chk," or other merchant codes must not be included within the field. Because the Check Serial Number Field is defined as an alphameric one, the *NACHA Operating Rules* require information within this field to be left justified and space filled. That is, the serial number of the check must begin in the

leftmost position of the Check Serial Number field, and any unused spaces within the field must be left blank.

Thus, for check number 1234:

CORRECT     1234

INCORRECT 0001234

00000000001234

CK# 001234

CK1234

1234 6532986002

CK1234 48832817

The *NACHA Operating Rules* require RDFIs to print the check serial number on both consumer and business Receiver's bank statements.

#### *Individual Name/Receiving Company Name*

For POP entries, the inclusion of information in the Individual Name/Receiving Company Name Field of the POP Entry Detail Record is optional. If the Originator chooses to utilize this field, it must include either:

1. the Receiver's name, or
2. a reference number, identification number, or code that the merchant uses to identify a particular transaction or customer.

*Note:* When a reference number, identification number, or code is used to identify the transaction or customer, it should be uniquely related to the individual or transaction. A generic description is not an acceptable means to identify the Receiver or transaction.

#### *Terminal City/Terminal State*

The *NACHA Operating Rules* and Regulation E require the inclusion of terminal location information on the Receiver's monthly bank account statement for POP entries. Originators must ensure that they include a four-character name or abbreviation of the city and a two-character abbreviation for the state in which the electronic terminal is located within the Terminal City Field and within the Terminal State Field, respectively,

of the POP Entry Detail Record. This information is used to identify the location of the electronic terminal used to originate the POP entry.

### ***Return of Point of Purchase Entries***

POP entries are governed by the same Return Reasons and Return Reason Codes as other ACH debit entries.

***A complete listing of Return Reason Codes can be found in Appendix Four of the NACHA Operating Rules.***

In addition, some special circumstances can apply, as described below.

#### ***Return by ACH Operator***

POP entries are limited to dollar amounts of \$25,000 or less. Any POP entry originated in an amount greater than \$25,000 will be returned by the ACH Operator.

#### ***Return by RDFI***

POP entries, like other ACH transactions, may be returned for a variety of reasons.

#### ***Timing of Returns***

Most POP entries need to be returned by the RDFI 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 POP entry.

In the following circumstances, an RDFI may also return a POP entry so that it is made available to the ODFI by opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry for the following reasons:

1. no notice was provided to the Receiver that the check was going to be converted to an ACH debit;
2. the source document used for the entry was not an eligible source document; or
3. the source document was presented for payment as a check through the check collection system.

In these three circumstances, the RDFI requires the Receiver to sign or similarly authenticate a written statement of unauthorized debit prior to being re-credited for the transaction.

### ***Returns for Improper Source Documents or When Both POP Entry and Source Document Have Been Presented***

With respect to POP entries based on improper source documents or where both the POP entry and the source document have been presented for payment, an RDFI may return such entries in either of two ways:

1. An RDFI (rather than the Receiver) determines that a POP entry was based on an improper source document, or that the entry and the source document were both presented for payment, may return the entry using Return Reason Code, R39 (Improper Source Document/Source Document Presented for Payment). Entries returned using this return reason code must be received by the RDFI's ACH Operator's deposit deadline for the return entry to be made available to the ODFI no later than opening of business on the second banking day following the Settlement Date of the original entry.
  - No written statement of unauthorized debit is required for this code.
2. When the Receiver (rather than the RDFI) as discussed above, determines that the source document to which an POP entry relates was improper or that the entry and the source document were both presented for payment, the RDFI may return the entry so that it is made available to the ODFI by the opening of business on the banking day following the 60th calendar day following the Settlement Date of the original entry using Return Reason Code R10 or R37, respectively.
  - A written statement of unauthorized debit is required when using this return reason code.

Originators should be aware, however, that RDFIs can not return POP entries based on a Receiver's claim that his authorization had been revoked



(R07) since these are one-time transactions where the Originator generally processes the transactions immediately after the purchase is complete.

As appropriate, the Receiver may (1) request his RDFI to stop the payment of a POP entry (Return Reason Code R08), (2) request his RDFI to return an unauthorized (R10) or ineligible/improper POP entry (Return Reason Code R10 or R39), or (3) go directly to the Originator (merchant) to request a refund of the transaction.

Originators should also be aware that, because the POP entry application does not require the Originator to capture the Receiver's name for inclusion on the point of purchase entry, the RDFI must rely on the ODFI's warranty regarding the validity of the Receiver's account number for posting purposes. The RDFI, therefore, may not return a point of purchase entry using Return Reason Codes R03 or R17 solely because the Receiver's name is not included in the entry. The RDFI may, however, use these Return Reason Codes if otherwise appropriate.

Originators must be prepared to handle returned POP Entries and must establish procedures that enable them to identify and contact the Receiver relating to any unpaid debit entry. Because the Originator does not retain the Receiver's voided check that was used as a source document, and because the Receiver's name and address are not included as part of the MICR-capture process, Originators need to develop alternative methods for retaining information necessary to identify the Receiver for whom a POP debit has been returned.

### **Stop Payments**

As with other Single-Entry ACH transactions, a Receiver desiring to place a stop payment order on a POP entry may do so, provided that he notifies his RDFI in such a time and manner that allows the RDFI a reasonable opportunity to act on the stop payment order prior to acting on the debit entry. POP entries returned by the RDFI as payment stopped will bear the Return Reason Code R08 and will be made available to the ODFI by opening of business on the second banking day following the settlement date of the POP entry.

### **Reinitiation of POP Entries**

POP entries that have been returned for insufficient or uncollected funds may be reinitiated up to two times following the return of the original entry, provided such reinitiations are transmitted by the Originator (or its ODFI on the Originator's behalf) within 180 days of the settlement date of the original entry.

For POP entries returned for any other reason, the Originator must first remedy the reason for the return before reinitiating the transaction within the 180-day time period discussed above.

### **Verification of Receiver's Identity**

The *NACHA Operating Rules* are silent on the means by which an Originator establishes the identity of the checkwriter for a POP entry. Most retailers, merchants and other parties who accept checks have established policies and procedures for accepting checks to limit their risk; for example, they use commercially reasonable procedures to do so.

***For a discussion on the concept of commercially reasonable standards, please refer to Chapter 4 of these Guidelines.***

Retailers, merchants and other parties normally continue to use standard policies and procedures when using a check for a source document. Originators should be mindful that they will not have the original check (source document) available should the item be returned, nor will they have a copy or image of the check unless they choose to make such a copy or image. *NACHA Operating Rules* do not require that the Originator copy or image the check; the decision to do so is left to the Originator.

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## CHAPTER 45

# **Prearranged Payment and Deposit Entries (PPD)**

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A Prearranged Payment and Deposit (PPD) Entry is a credit or debit entry originated by an organization to a consumer's account, based on standing or

single-entry authorization from that consumer. PPD entries can be used for both recurring and non-recurring payments, and comprise a fundamental component of the ACH Network. This application is used for the majority of consumer payments, incorporating a large variety of Direct Deposit and Direct Payment applications within its scope.

Direct Deposit is a credit application that transfers funds into a consumer's account at his financial institution (the RDFI). The funds being deposited can represent a variety of products, such as payroll, dividend, interest, pension, and annuity payments.

Direct Payment is a debit application, in which companies use the ACH Network to electronically collect bill payments from their customers. Through the use of a standing authorization, the consumer grants the company authority to originate periodic debits to his account as bills become due. Direct Payment is widely used with recurring billing relationships, such as insurance, mortgage, utility, and loan payments, as well as a variety of membership dues.

## INITIATING A PPD ENTRY — AN OVERVIEW

- An Originator obtains authorization from the Receiver to originate an entry to the Receiver's account. For PPD debit entries, the authorization must be in writing and signed or similarly authenticated by the Receiver. For PPD credit entries, the consumer's authorization may be provided orally or by other non-written means.
- The Originator initiates PPD credits or PPD debits to the consumer's account, based on the terms of the authorization.

## OBLIGATIONS OF ORIGINATORS

### ***Agreements with ODFIs***

An Originator must enter into a contractual agreement with the ODFI for the origination of ACH payments. In addition to being bound to the requirements of the *NACHA Operating Rules*, Originators should ensure that this agreement addresses any issues that may be specific to PPD entries, as well as any specific obligations with

respect to formatting requirements, processing obligations, warehousing, and timing.

***For more detailed information on agreements between Originators and their ODFIs, refer to Chapter 15 within these Guidelines.***

## AUTHORIZATION REQUIREMENTS

As with any ACH transaction, the Originator must obtain the Receiver's authorization to initiate PPD entries through the ACH Network to the Receiver's account. For PPD debit entries, the authorization must

1. be in writing;
2. be readily identifiable as an ACH authorization;
3. have clear and readily understandable terms;
4. provide that the Receiver may revoke the authorization only by notifying the Originator in the manner specified in the authorization; and
5. be either signed or similarly authenticated by the consumer. (Refer to the discussion below on the use of the similarly authenticated standard with PPD entries.)

The Originator must provide the Receiver a copy of the authorization for all debit entries.

For credit entries to a consumer account, the authorization may be obtained in writing, or it may be obtained orally or by other non-written means.

Although an authorization is not required for a reversing entry that complies with the *Rules*, Originators are encouraged to obtain direct authorizations for these entries.

An Originator must retain the original or a reproducible copy of the Receiver's authorization for two years from the termination or revocation of the authorization, and must be able to provide the ODFI with an accurate copy within the time period required by the ODFI.

### ***PPD Entries and the Similarly Authenticated Standard***

As an alternative to providing a written signature to authorize a PPD debit entry, the consumer Receiver may similarly authenticate the written authorization that was previously delivered to him by the Originator. The similar authentication method must evidence both the consumer's identity and his assent to the authorization.

For example, where there is an existing relationship, the Originator could have previously delivered the written terms of the authorization to the consumer with an explanation of a telephone payment option. The consumer Receiver could authenticate his agreement to the terms of the authorization by key-entering into a VRU or speaking into a recorded line a PIN provided with the authorization that identifies the consumer. (Either the consumer or the Originator could have initiated the telephone call in this case.)

Alternatively, an Originator having no relationship with the Receiver could deliver the terms of the authorization to the Receiver in a catalog mailed on an unsolicited basis. Either party (consumer or Originator) could initiate the telephone call, during which the consumer Receiver would authenticate his agreement to the terms of the authorization by key-entering into a VRU or speaking into a recorded line a PIN printed in the catalog.

When a consumer uses the telephone to similarly authenticate an authorization, Originators should consider the following as best practices:

- The PIN code should be a minimum of four digits.
- If there is not an existing relationship between the Originator and the Receiver, the code should be printed on the written authorization that is in the consumer's possession when the telephone conversion occurs. This demonstrates the consumer's possession of the authorization language at the time of the call.
- Outbound calls by an Originator to a consumer where there is no prior relationship pose heightened risks for obtaining a properly authenticated,bonafideauthorization.Originators

in these circumstances should pay particular attention to compliance with the Federal Trade Commission's (FTC's) Telemarketing Sales Rule (16 C.F.R. Part 310) and should take steps to ensure that their authorization language is clear, conspicuous, and readily understood by the Receiver, and that their means of authentication unambiguously indicates the Receiver's assent to the transaction.

The Originator must retain a record of any authentication code relayed by the consumer. If the consumer verbally expresses the authentication code, the Originator must make and retain an audio recording of the consumer's statement of the code. If the consumer relays the authentication code by key-entering it into a VRU, a record of the keystrokes must be retained. As with other ACH transactions, proof of authorization is required. Originators must retain a copy of both the written authorization and the consumer's use of the authentication code. Both must be accurately reproduced and provided to the ODFI upon request.

Originators should be aware of the distinction between PPD entries that are similarly authenticated using the telephone and Telephone-Initiated Entries, which are discussed in Chapter 47 of these *Guidelines*.

### ***Source Documents for PPD Entries***

While the *NACHA Operating Rules* do not define any specific requirements for obtaining the consumer's routing and account number to generate a PPD entry, one common business practice used by Originators is to use the MICR line from a check to obtain this information. Originators must ensure that the correct Receiver's account number is contained in each ACH entry. Originators are strongly encouraged to establish practices and procedures to ensure the validity and accuracy of each Receiver's account number for all entries transmitted into the ACH Network.

Originators may also look on the face of a check for the routing information. Some financial institutions may print the routing number and account number used for ACH purposes on the face of the item, if the information on the MICR line is not appropriate for ACH activity. In addition, some financial institutions may provide their customers

with another source document that indicates the routing and account number to be used for ACH entries.

In an effort to help ensure the proper routing and processing of ACH Entries, Originators should consider implementing practices and procedures that will enable them to verify the accuracy of routing numbers prior to the transmission of entries into the ACH Network.

### ***Notices of Variable Debits***

#### ***Notice of Change in Amount***

If the amount of a debit entry to be initiated to a consumer account differs from the amount of the immediately preceding debit entry relating to the same authorization, or differs from a preauthorized amount, an Originator must send the Receiver written notification of the amount of the entry and the date on or after which the entry will be debited. The Originator must provide this notice at least ten calendar days prior to the date on which the entry is scheduled to be initiated.

#### ***No Notice Required for Change Within Agreed Range***

The Originator is not required to give the notice above if (i) the Originator provides, and the Receiver chooses, the option to receive such notice only if the amount of the entry falls outside a specified range or if the entry differs from the most recent entry by more than an agreed upon amount, and (ii) the variation in the amount of the entry is within the tolerance agreed to by the Receiver.

#### ***Notice of Change in Scheduled Debiting Date***

An Originator that changes the scheduled date on or after which debit entries are to be initiated to a Receiver's account must send to the Receiver written notification of the new date on or after which entries are scheduled to be debited to the Receiver's account. The Originator must send such notification to the Receiver at least seven calendar days before the first such entry is scheduled to be debited to the Receiver's account. Variation in debiting dates due to Saturdays, Sundays, or holidays are not considered to be changes in the scheduled dates.

## **FORMATTING REQUIREMENTS**

*Addenda Record* – A PPD entry may be accompanied by one addenda record (Addenda Type “05”) carrying payment related ANSI ASC X12 data segments (i.e., from the 103 Transaction Set, the 521 Transaction Set, 813 Transaction Set, 820 Transaction Set, 823 Transaction Set, or 835 Transaction Set) to transport limited financial information.

For PPD entries with an addenda record, the *NACHA Operating Rules* designate the “\*” (asterisk) as the data element separator (referred to as the “delimiter”) and the “\” (backslash) as the indicator for the end of the segment (referred to as the “terminator”).

Originators must be aware; however, that the *NACHA Operating Rules* do not require RDFIs to provide Receivers with any remittance data that accompanies a PPD entry.

For more information on formatting payment related ANSI ASC X12 data segments, refer to Appendix J in these *Guidelines*.

## **RETURN OF PPD ENTRIES**

PPD entries are governed by the same return reasons and Return Reason Codes as other ACH debit entries (a complete listing of Return Reason Codes can be found within Appendix Four of the *NACHA Operating Rules*).

Most PPD returns will be made available to the Originator's ODFI by the opening of business on the second banking day following the Settlement Date of the PPD entry.

However, when a Receiver has claimed that a PPD debit entry to his account was not authorized, the Originator must be aware that its ODFI may receive the return of the PPD entry for an extended period of time. In these cases, ODFIs, on behalf of their Originators, may receive PPD return entries as late as the opening of business on the banking day following the 60th calendar day following the Settlement Date.

For these extended returns, an RDFI is required to have obtained a Written Statement of Unauthorized



Debit from its Receiver. The Originator may request its ODFI obtain a copy of the Receiver's written statement regarding the unauthorized debit entry. Originators should work with their ODFIs to establish procedures to request such information from the RDFI when appropriate.

### **Reinitiation of PPD Entries**

PPD entries that have been returned for insufficient or uncollected funds may be reinitiated up to two times following the return of the original entry, provided such reinitiations are transmitted by the Originator (or its ODFI on the Originator's behalf) within 180 days of the Settlement Date of the original entry.

For PPD entries returned for any other reason, the Originator must first remedy the reason for the return before reinitiating the transaction within the 180-day time period discussed above.

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## CHAPTER 46

### **Re-Presented Check Entries (RCK)**

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Re-presented Check Entries (RCK) are Single-Entry debits initiated by Originators to re-present paper checks electronically after the paper checks have been returned for insufficient or uncollected funds.

The *Rules* governing RCK entries define specific eligibility requirements and limits on the types of checks that may be re-presented via the ACH Network. In addition to the fundamental requirement that only a check returned for insufficient or uncollected funds can be collected in this manner, Originators are also limited to converting only certain types of consumer checks in amounts less than \$2,500. More detailed information on these and other eligibility requirements can be found later in this chapter.

### **LEGAL FRAMEWORK**

In addition to applicable *NACHA Operating Rules*, Re-presented Check Entries are also governed by the Uniform Commercial Code (UCC) and Federal

Reserve Regulation CC. However, RCK entries are not subject to the Electronic Funds Transfer Act (EFTA) or Regulation E.

The legal framework for Re-presented Check Entries is premised on the fact that the origin of each RCK entry is based on a paper check that has been dishonored. Transfers of funds that were originated by a check, draft, or similar paper instrument are specifically excluded from coverage under the EFTA (15 U.S.C. 1693a(6)) and Regulation E (12 C.F.R. 205.3(c)(1)). Accordingly, if a Re-presented Check Entry is treated as a check transaction for purposes of the EFTA and Regulation E, it follows that the UCC and Regulation CC should continue to be the bodies of law that govern the rights and responsibilities of the parties involved with that payment, even though it has been converted to electronic form.

A Re-presented Check Entry is considered to be a presentment notice for purposes of Revised Article 4 of the Uniform Commercial Code (1990 Official Text). To that end, receipt of a Re-presented Check Entry constitutes presentment of the item in accordance with Article 4-110, and return of the Re-presented Check Entry constitutes notice of dishonor or non-payment of the item in accordance with Article 4-301. Provisions of the *NACHA Operating Rules* that are applicable to Re-presented Check Entries are in accordance with Commentary provisions set forth in 12 C.F.R. Part 229.37 of Federal Reserve Regulation CC.

### **ELIGIBILITY REQUIREMENTS FOR ELECTRONIC RE-PRESENTMENT**

An Originator may initiate an RCK entry only in relation to an item that

- is an item within the meaning of Revised Article 4 of the Uniform Commercial Code (1990 Official Text);
- is a negotiable demand draft drawn on or payable through or at a participating DFI, other than a Federal Reserve Bank or Federal Home Loan Bank;
- contains a pre-printed serial number;
- is in an amount less than \$2,500;

- indicates on the face of the document that it was returned due to “Not Sufficient Funds,” “NSF,” “Uncollected Funds,” or comparable language;
- is dated 180 days or less from the date on which the RCK entry is transmitted to the RDFI (that is, the item to which the RCK entry relates is not stale-dated);
- is drawn on a consumer account; and
- has been previously presented
  - no more than two times through the check collection system (as a physical check, substitute check, or image), if the RCK entry is an initial entry, or
  - no more than one time through the check collection system and no more than one time as an RCK entry, if the RCK entry is a reinitiated RCK entry.

Examples of items an Originator may not use to initiate an RCK entry include the following:

- non-cash items (as defined by Section 229.2(u) of Federal Reserve Regulation CC);
- drafts drawn on the Treasury of the United States, a Federal Reserve Bank, or a Federal Home Loan Bank;
- drafts drawn on a state or local government that are not payable through or at a Participating DFI;
- United States Postal Service money orders;
- items payable in a medium other than United States currency;
- items payable to a person other than the Originator; and
- drafts that do not contain the original signature of the Receiver, including remotely created checks, as defined by Regulation CC (e.g., the drawer does not sign a check but authorizes another party to debit his account via a draft).

## OBLIGATIONS OF ORIGINATORS

### *Agreements With ODFIs*

An Originator using the ACH Network to collect checks that have been returned for insufficient or uncollected funds should consider modifications to its agreement with its ODFI to address specific issues related to the origination of RCK entries. In addition to being bound to the requirements of the *NACHA Operating Rules* through its ODFI/Originator agreement, an Originator and its ODFI should also address any processing obligations, timing, liabilities, etc., that are unique to the RCK application. These modifications could, for example, address the extent to which the Originator and ODFI would share liability for the following warranties as they apply to the origination of RCK transactions:

- the ODFI has good title to the returned item;
- all signatures on the item are authentic and authorized;
- the item has not been altered;
- the item is not subject to a defense or claim;
- the ODFI has no knowledge of any insolvency;
- the re-presented check entry accurately reflects the item;
- the underlying item — that is, the original check (or image or substitute check) — has not been and will not be presented unless the RCK entry has been returned by the RDFI;
- the information encoded in magnetic ink on the item after issuance of the item is correct;
- any restrictive endorsement placed on the item is void or ineffective; and
- the ODFI will provide the RDFI with a copy of the front and back of the item to which the RCK entry relates within ten banking days of the RDFI’s written request for a copy.



### **Authorization/Notification Requirement**

Originators are required to provide notice to the Receiver, prior to the receipt of each check, that a check returned for insufficient or uncollected funds may be re-presented electronically via the ACH Network. The provision of this notice by the Originator to the Receiver and the receipt of the consumer's check together constitute authorization for the origination of an RCK entry.

The *NACHA Operating Rules* do not prescribe the manner in which the Originator must provide the required notice to the check writer. However, the Originator must ensure that the notice clearly and conspicuously states the terms of the Re-presented Check Entry policy. It is recommended that notice provided at the point-of-sale be clearly displayed on a sign at the point-of-sale, and that notice provided by a billing firm (i.e., utility company or credit card company that issues a bill for payment) be clearly displayed on or with the monthly billing statement.

Originators should be aware that, to protect both the check writer and the RDFI, a check writer is permitted to sign a written statement of unauthorized debit and be recredited for the amount of an RCK entry if the required notification by the Originator is not provided. In this situation, an Originator should be aware that an RDFI has an extended period of time within which to return the entry. (Specifically, the RDFI must transmit the return entry in such a time and manner that the return entry is 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 RCK entry.)

### **Restrictive Endorsements**

Any restrictive endorsement (e.g., "For Deposit Only") that is placed on the item by the Originator or its agent is void or ineffective when the item is presented as a re-presented check entry.

### **Formatting Requirements**

- **Dollar Amount** – RCK entries must be originated for amounts less than \$2,500.
- **Company Name** – The original payee on the face of the check must appear within the Company Name Field of the Company/Batch Header Record

(Note: Minor variations in how the payee's name appears in this field are acceptable; the name should, however, under all circumstances be recognized by the check writer as the payee to whom he wrote the check);

- **Company Entry Description** – The description "REDEPCHECK" must appear within the Company Entry Description Field of the Company/Batch Header Record; and
- **Check Serial Number** – The Check Serial Number of the check to which the re-presented check entry relates must be placed within the Check Serial Number Field of the RCK Entry Detail Record.

### **Collection of Return Fees**

An Originator may transmit an RCK entry for the face amount of the returned check only. No fees of any type may be added to the amount of the item when it is transmitted as an ACH entry.

An Originator desiring to use the ACH Network to collect a Return Fee from a Receiver must originate a separate debit entry Return Fee Entry using the appropriate SEC Code and must follow all rules governing the origination of Return Fee Entries. For specific information on Return Fee Entries, please refer to Chapter 54 in the Special Topics Section of these Guidelines.

Originators need to be aware that the requirements of the *NACHA Operating Rules* regarding the origination of Return Fee Entries are in addition to any requirements defined by applicable state law governing the collection of Return Fees. Originators are responsible for determining what the applicable state laws are, if any, for each of their check-accepting locations that intend to, or may, use the ACH Network for the collection of Return Fees.

Some Originators may desire to place an authorization stamp on the check being used for the payment of goods or services in order to collect a returned check fee in the event that the check is returned for insufficient or uncollected funds. In order for this practice to be compliant with the *NACHA Operating Rules*, the following requirements must be met:

- An authorization placed on the check must be signed (not initialed). This signature must stand alone, i.e., the authorization language for the ACH debit entry must not be stamped in close proximity to the maker's signature on the check such that it could appear that by signing the check, the checkwriter has also agreed to the authorization. The signature for the authorization must clearly relate to the authorization language itself.
- The authorization on the check must be readily identifiable as an ACH debit authorization and its terms must be clear and readily understandable (i.e., the print cannot be so small or smeared that a consumer would be unable to easily read the authorization and understand its terms).
- The authorization on the check must contain information that explains how the consumer may revoke the authorization.
- The Originator must provide the consumer with an electronic or hard copy of the authorization.
- The Originator must retain the original or a copy of the authorization for two years from the termination or revocation of the authorization.

Authorization language, if stamped on the back of the check, should be in the endorsement space provided and not lower on the check. Before stamping the back of a check with anything other than an endorsement, Originators must ensure that they understand and are in compliance with both the *NACHA Operating Rules* and all regulations that govern the collection of checks.

### **Number of Presentments**

Originators may transmit a re-presented check entry no more than twice after the first return of a paper item, and no more than once after the second return of a paper item.

### **Retention of Copy of Item**

The Originator must retain a copy of the front and back of the item (check) to which the RCK entry relates for seven years from the Settlement Date of the RCK entry. When requested to do so by the ODFI, the Originator must provide a copy of

the front and back of the check to the ODFI for its use, or for the use of the RDFI requesting the information. If the check has been finally paid, the Originator must indicate this on the copy.

### **Return of Re-presented Check Entries**

Originators can expect to receive returned RCK entries for a variety of reasons. Generally speaking, RDFIs must return RCK entries to their ACH Operators by midnight of the second banking day following the banking day of receipt of the RCK entry. This return time period is applicable to the return of most RCK entries, including RCK entries returned by RDFIs that are located in states that (1) have not adopted Revised Article 4 of the Uniform Commercial Code (1990 Official Text) and have not revised its customer agreements to allow for electronic presentment, or (2) require all canceled checks to a specific type of account to be returned to the Receiver within the periodic statement.

Originators should be aware, however, that an RDFI may also return an RCK entry so that it is made available to the ODFI by the opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry in the following circumstances: (1) the Receiver had placed a stop payment order on the item to which the RCK entry relates, (2) the required notice stating the re-presented check entry policy was not provided by the Originator, (3) the check is ineligible, (4) all signatures on the check are not authentic or authorized, or the check has been altered, (5) the amount of the entry was not accurately obtained from the item, or (6) both the RCK entry and the item to which the RCK entry relates have been presented for payment. With the exception of returns due to stop payment on the original item, the Receiver is required to provide the RDFI with a written statement of unauthorized debit specifying the reason for the return.

*For additional information on written statements of unauthorized debit, refer to Chapter 26 in these Guidelines. A complete listing of return reason codes, including those specifically addressing return conditions unique to RCK, as discussed above, can be found within Appendix Four of the NACHA Operating Rules.*

### *Stop Payments*

Originators should be aware that RCK entries can be returned for up to sixty days from settlement when a stop payment order is involved. As with other Single-Entry ACH transactions, a Receiver desiring to place a stop payment order on an RCK entry may do so, provided that he notifies his RDFI in such a time and manner that allows the RDFI a reasonable opportunity to act on the stop payment order prior to acting on the debit entry. An RDFI returning an RCK entry on which a stop payment order is placed must use Return Reason Code R08 and must transmit the return to its ACH Operator by midnight of the second banking day following the banking day of receipt of the RCK entry.

However, because the Receiver's original payment was made by check, any instruction from the Receiver to his financial institution to stop that payment will, in all likelihood, have been placed on the RDFI's check system instead of the ACH system. When an RCK entry is re-presented electronically via the ACH Network, the RDFI should compare the entry against its check system to determine whether any stop order on the item exists. However, not all RDFIs have established a link between their check and ACH systems to check for stop payment orders for these types of transactions, potentially allowing an entry to be paid when it should not be. In these cases, the *NACHA Operating Rules* also permit the RDFI to return an RCK entry in such a time and manner as to make the return available to the ODFI no later than the opening of business on the banking day following the 60th calendar day following the settlement date of the original entry (as discussed in the section above). This 60-day return time frame provides a "safety net" for RDFIs that have not built a bridge between their check and ACH systems to check for stop payment orders. These entries must be returned using Return Reason Code R52 (Stop Payment on Item). A written statement of unauthorized debit is not required for this return reason.

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## CHAPTER 47

### **Telephone-Initiated Entries (TEL)**

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Telephone-Initiated Entries (TEL) are consumer debit transactions. The *NACHA Operating Rules* permit TEL entries when the Originator obtains the Receiver's authorization for the debit entry orally via the telephone. An entry based upon a Receiver's oral authorization must utilize the TEL (Telephone-Initiated Entry) Standard Entry Class (SEC) Code.

#### **INITIATING A TEL ENTRY — AN OVERVIEW**

A TEL Entry is initiated by an Originator in response to a Receiver's oral authorization that is spoken over the telephone and includes the Receiver's banking information. Based on the Receiver's oral authorization, an ACH debit is initiated to the Receiver's account to collect payment for goods or services. TEL Entries may be used for debit transactions only. Originators may not utilize the TEL SEC Code to transmit credit entries to the Receiver's account, unless those entries are credits to reverse erroneous debits.

#### *Existing Relationship*

ATEL Entry may be transmitted only in circumstances in which:

1. there is an existing relationship between the Originator and the Receiver, or
2. there is not an existing relationship between the Originator and the Receiver, but the Receiver initiated the telephone call to the Originator.

The Originator and the Receiver are considered to have an existing relationship when either:

1. there is a written agreement in place between the Originator and the Receiver for the provision of goods or services (e.g., the Receiver has an insurance policy with the Originator), or
2. the Receiver has purchased goods or services from the Originator within the past two years.

### *No Relationship*

A TEL Entry may not be used by an Originator when there is no existing relationship between the Originator and the Receiver, and the company has initiated the telephone call. For purposes of the *Rules*, an Originator is not deemed to have such an existing relationship with the Receiver with respect to TEL entries on the basis of a pre-existing relationship of one of its affiliates.

### **Oral Authorization**

An oral authorization is that which is spoken by the Receiver or is captured by an automated response system, again orally spoken.

- Voice Response Unit (VRU): A Voice Response Unit is also commonly referred to as Interactive Voice Response Unit or IVR, which is interactive technology that allows a computer to detect voice and keypad inputs.

## **RISK MANAGEMENT**

The *NACHA Operating Rules* require Originators to implement a number of specific risk management procedures relating to TEL entries:

### **Verification of Identity of Receiver**

Originators of TEL entries are required to utilize commercially reasonable procedures to verify the identity of the Receiver (e.g. name, address, and telephone number). Originators need to establish a commercially reasonable method (e.g., use of a directory, database, etc.) to comply with this requirement. The Originator is also advised to further verify the Receiver's identity by verifying pertinent information with the Receiver (e.g., past buying history, mother's maiden name, Caller ID information, shared secrets, account passwords, challenge responses, credit bureau information, etc.)

### **Verification of Routing Numbers**

Originators of TEL entries are required to establish commercially reasonable procedures to verify that routing numbers are valid. A TEL entry is a debit entry in which the Receiver is responsible for providing his routing number. In most instances, the Receiver provides the routing number by

reading it from a source document (e.g., the Receiver's check), which increases the potential for Receiver error in providing accurate information.

In some instances, the MICR information on the Receiver's check may not be appropriate for ACH processing resulting in increased exception processing. Originators can minimize the potential for exception processing by employing commercially reasonable procedures to verify that routing numbers are valid.

Verifying the validity of routing numbers can be accomplished by:

- a component of a fraudulent transaction detection system,
- through a separate database or directory (either commercial or proprietary), or
- through other methods devised by the Originator, for example manual intervention such as calling the Receiver's financial institution.

Although TEL provides a streamlined method for Receivers to authorize ACH debit entries, this process may be subject to misuse through the origination of unauthorized ACH debit transactions. TEL entries are susceptible to origination that is the result of deceptive and fraudulent telemarketing practices by those Originators that use fraudulent intent to:

- Debit the Receiver without obtaining the Receiver's authorization for such a transaction;
- Cold call consumers with whom they have no existing relationship and subsequently debit the Receiver; and
- Use mail solicitations to instruct the consumer to initiate the telephone call to the Originator and subsequently attempt to sell goods or services using deceptive marketing practices.

### **Commercially Reasonable**

*For discussion on the concept of commercially reasonable standards, please refer to Chapter 4 of these Guidelines.*



## OBLIGATIONS OF ORIGINATORS

### ***Agreements with ODFIs***

Originators that wish to use the ACH Network to transmit TEL entries should consider modifications to their agreements with their ODFIs to address the origination of this type of transaction. At a minimum, additions to the ODFI/Originator agreement should include, but not be limited to:

- the Originator's responsibilities and obligations with respect to the provision of specific information to the Receiver during the telephone call;
- the Originator's requirement to audio record the oral authorization or provide written confirmation of the Receiver's authorization for Single-Entry TEL entries;
- the Originator's requirement to audio record the oral authorization and provide a written copy of the Receiver's authorization for recurring TEL entries, to the extent required by Regulation E;
- verification of the identity of the Receiver; and
- verification of routing numbers.

As the ODFI assumes additional warranties with respect to the verification of the Receiver's identity and verification of the Receiver's routing number, the agreement should also address the allocation of liability between the Originator and ODFI for any failure on the part of the Originator to comply with these and other requirements of the *NACHA Operating Rules*.

### ***Authorization Requirements***

Originators of TEL entries must obtain the Receiver's explicit oral authorization prior to initiating a debit entry to a consumer's account. The authorization must evidence the Receiver's identity and assent to the authorization.

For both Single Entry and recurring TEL entries, the Originator must clearly state during the telephone conversation that the consumer is authorizing an ACH debit entry to his account. The Originator must understand that the Receiver must explicitly express consent. Silence is not express consent.

### ***Single Entry TEL Entries***

Originators of Single Entry TEL entries are obligated either to audio record the Receiver's oral authorization or to provide, in advance of the Settlement Date of the entry, written notice to the Receiver that confirms the oral authorization. The authorization must be readily identifiable as an authorization and must have clear and readily understandable terms. The following minimum information must be included as part of the authorization:

- the date on or after which the Receiver's account will be debited;
- the amount of, or a reference to the method of determining the amount of, the debit entry to the Receiver's account;
- the Receiver's name or identity<sup>7</sup>;
- the account to be debited;
- a telephone number that is available to the Receiver and answered during normal business hours for customer inquiries;
- the method by which the Receiver can revoke the authorization;
- the date of the Receiver's oral authorization; and
- a statement by the Originator that the authorization obtained from the Receiver is for a Single-Entry ACH debit, a one-time electronic funds transfer, or other similar reference.

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<sup>7</sup> While Receivers are typically identified by name in an authorization, the Rule includes the broader term "identity" to provide Originators with the flexibility to use identity credentials such as user name and password as part of the authorization. The Originator should have other records that would then link those identity credentials to the Receiver's name.

When the Originator of a Single Entry TEL entry elects to provide the Receiver with written notice confirming the Receiver's oral authorization, that notice must include, at a minimum, the pieces of information required to be included during the telephone call, as described above. The Originator should disclose to the Receiver the method by which written notice will be provided if this option is used by the Originator.

### *Recurring TEL Entries*

Originators of recurring TEL entries are obligated to both audio record the Receiver's oral authorization and to provide a written copy of the authorization to the Receiver, to the extent required by Regulation E. The Originator should disclose to the Receiver the method by which the written copy will be provided. The authorization must be readily identifiable as an authorization and must have clear and readily understandable terms. The following minimum information must be included as part of the authorization:

- the amount of the recurring transactions, or a reference to the method of determining the amount of recurring transactions;
- the timing (including the start date), number, and/or frequency of the electronic funds transfers, or other similar reference, to the consumer's account;
- the Receiver's name or identity;
- the account to be debited;
- a telephone number that is available to the Receiver and answered during normal business hours for customer inquiries;
- the method by which the Receiver can revoke the authorization; and
- the date of the Receiver's oral authorization.

Authorizations for recurring TEL Entries need to meet the writing and signature requirements of Regulation E for preauthorized transfers, which can be done by conforming to the e-Sign Act. However, neither Regulation E nor its Commentary

provides additional guidance as to how ODFIs and Originators can comply with e-Sign. Although NACHA cannot formally interpret Regulation E, the guidance below provides additional information on how to comply with the Rules for authorization of recurring TEL entries. This guidance is not intended to be legal advice regarding compliance with Regulation E. ODFIs and Originators using recurring TEL are responsible for determining their own compliance with Regulation E and the e-Sign Act.

### *Authorization of Recurring TEL Entries under Regulation E and e-Sign Act*

Under the Rules, an ODFI is responsible for the compliance of the telephone authorization process with applicable law and for the validity of any authorization obtained using such a process. To facilitate ACH participants' understanding of such processes, the following provides high-level outlines of two distinct situations that Originators and ODFIs might face when considering whether to permit consumers to authorize recurring ACH debits from their accounts via the telephone. The first scenario is based on the *Rules* as they existed prior the effective date of the recurring TEL rule (September 16, 2011), and results in "telephone-initiated PPD transactions" in which a written authorization is electronically signed. This remains a permissible transaction format for institutions that follow the process outlined below. The second scenario is based on the current rule for recurring TEL payments with an oral authorization. These are merely two examples; there are many other variations of the scenarios below that Originators and ODFIs may wish to consider.

#### *Scenario 1 – Telephone-Initiated PPD Entries by Electronically Signed Authorization*

The consumer has received the clear and readily understandable terms of the preauthorized transfer in writing (either in a physical writing or in an electronic manner that satisfies the e-Sign Act or other applicable law) prior to the telephone call. The writing includes spaces for the consumer to record any variable information (e.g., transaction amount, transaction frequency, account number and/or routing number). The



consumer then initiates a telephone call to the Originator, during which the consumer authorizes a recurring debit to his or her consumer account, and “signs” the written authorization either by inputting a code into the telephone keypad or by providing the code orally to a customer service representative on a recorded line. This scenario could apply to an existing billing relationship, in which the billing company regularly sends bills in writing (either paper or electronic) to an existing customer. The bill would contain the clear and readily understandable terms of the preauthorized transfers, and a code for the customer to input during the telephone call.

#### *Scenario 2 – Recurring TEL Entries by Oral Authorization*

The consumer has not received the terms of the preauthorized transfer in writing (either in a physical writing or in an electronic manner that satisfies the e-Sign Act or other applicable law) prior to the telephone call. The consumer initiates a telephone call to the Originator, during which the consumer authorizes a recurring debit to his or her consumer account. The consumer provides his or her authorization, including his or her “signature” or “authentication” of the authorization, via a recorded conversation. The consumer either repeats or expressly confirms the authorization, including the account to be debited, the timing of the debits (e.g., monthly on the 1st business day of the month), and the amount (e.g., \$500 per month), as well as other required elements of the authorization. The Originator provides a written copy of the authorization to the consumer (either in a physical writing or in an electronic manner that satisfies e-Sign Act or other applicable law). This scenario could apply to both: 1) an existing billing relationship in which terms of the preauthorized transfer are not contained in writing on a bill; and 2) a new billing relationship in which a new customer wants to authorize recurring payments during the same telephone call that establishes a new service (e.g., a new car insurance policy), provided that the authorization is the result of an inbound customer call.

#### *Other Considerations for TEL Entry Authorizations*

Originators should understand that the term “provide” is intended to mean that the Originator has utilized a medium (e.g., U.S. mail, fax, or other mail delivery method) to send the written notice to the Receiver. Any written notice or disclosure required by the *NACHA Operating Rules*, including those for TEL entries, may be provided in electronic form (e.g., e-mail and SMS text message to a smartphone or mobile device). However, state and federal laws may require Receiver consent before using electronic notices/disclosures.

The term “provide” does not imply receipt of such notice by the Receiver. Originators that send a copy of the written authorization or use a written notice to confirm the authorization must afford the Receiver the right to contact the Originator to correct any erroneous information contained within the notice using a provided telephone number. Compliance with the *NACHA Operating Rules* does not eliminate the obligation to comply with other applicable laws.

An Originator using a voice response unit (VRU) to capture a Receiver’s authorization for a TEL entry must understand that key-entry responses by the Receiver to input data and to respond to questions does not qualify as an oral authorization. A VRU may be used by the Receiver to key enter data and to respond to questions, provided that the actual authorization by the Receiver is provided orally.

#### *Retention of Record of Authorization for TEL Entries*

For Single Entry TEL entries, the Originator must retain either the original, copy, or other accurate record of the Receiver’s oral authorization or a copy of the written notice confirming the Receiver’s oral authorization for two years from the date of the authorization. For recurring TEL entries, an Originator must retain for two years from the termination or revocation of the authorization (i) the original, copy, or other accurate record of the oral authorization, and (ii) evidence that a copy of the authorization was provided to the Receiver in compliance with Regulation E. At the request of the ODFI, the Originator must provide a copy of the Receiver’s authorization.

### **Formatting Requirements**

The Payment Type Code in the Entry Detail Record is used to indicate whether a TEL entry is a recurring or a single entry payment. For a recurring TEL entry, this field must contain the value “R”. For a single entry TEL entry, this field must either contain the value “S” or be space-filled.

The Individual Name Field of the Entry Detail Record of a TEL entry is a mandatory field. Originators must ensure that the name of the Receiver is included within each TEL entry. Any TEL entry where the Individual Name Field contains all spaces or all zeros will be rejected and returned by the ACH Operator.

*Note:* The inclusion of all spaces or all zeros in any other mandatory field will also cause the entry to be returned by the ACH Operator.

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## CHAPTER 48

### **Internet Initiated/Mobile Entries (WEB)**

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Internet-Initiated/Mobile Entries (WEB entries) are used for the origination of debit entries (either recurring or single entry) to a consumer’s account based on an authorization from the Receiver to the Originator via the Internet or a Wireless Network, excluding oral authorization via these channels. In addition, the WEB Standard Entry Class Code must be used if the Receiver’s instructions for initiation of the debit entry are communicated, other than orally, to the Originator via a Wireless Network, but the authorization has been given in some other manner. This SEC Code helps to address unique risk issues inherent to the Internet and Wireless payment environments through requirements for added security procedures and obligations.

### **BACKGROUND**

Three unique characteristics of the Internet warranted the development of the *NACHA Operating Rules* for WEB:

1. the anonymity of the Internet environment in which parties are not certain with whom they are doing business poses unique opportunities for fraud,
2. the Internet as an open network requires special security procedures to be deployed to prevent unauthorized access to Receiver financial information, and
3. the sheer speed with which a large number of payments can be transacted over the Internet (volume and velocity).

Technical solutions and business practices to support WEB payments continue to evolve. Therefore, the *NACHA Operating Rules* balance the need for security with the desire to maintain some flexibility regarding the methods ACH Network participants use to comply with the *Rules*. These *Operating Guidelines* recommend methods ACH participants can use to implement and comply with the *NACHA Operating Rules* for WEB entries. (Note: In any case where these key components are not specifically required under the *NACHA Operating Rules*, all are recommended by NACHA as sound business practices.)

### **INITIATING A WEB ENTRY — AN OVERVIEW**

#### ***When to Use the SEC Code WEB:***

1. WEB is appropriate to use when initiating debit entries that have been authorized by the Receiver via the Internet or a Wireless Network.

Example: Authorization is obtained over the Internet accessed from a device that uses a wired or Wireless Network.

2. WEB is appropriate if the Receiver’s instructions for initiation of the debit entry are communicated to the Originator via a Wireless Network but the authorization has been given in some other manner.

Example: An authorization was obtained from the Receiver in person but the Receiver sends a text message to communicate when to initiate the debit entry.

**When NOT to use the SEC Code WEB:**

1. WEB is **not** appropriate if the authorization is oral.

Example: Authorization is given during a telephone conversation via a device over a Wireless Network.

2. WEB is **not** appropriate if the Receiver's instructions for initiation of the debit entry are communicated to the Originator over the Internet via a wired network but the authorization has been given in some other manner.

Example: A written authorization was obtained from the Receiver through the mail to debit his account for a bill payment service but he goes to the biller's website to verify the amount of the bill each month, this transaction would constitute a PPD entry rather than a WEB entry.

3. WEB is **not** appropriate to initiate credit entries except for a reversing entry to correct a previous WEB debit entry.
4. WEB is **not** appropriate to initiate debit or credit entries for business transactions.
5. WEB is **not** appropriate if the POS code would otherwise apply, because the WEB format does not contain the necessary fields for communication of POS transaction information.

Example: A Receiver uses a third party near field communication mobile payment service to initiate a debit to his or her bank account to pay for goods at the point-of-sale. In accordance with the Formal Rules Interpretation regarding the Proper Use of SEC Codes, the merchant (Originator) should use the POS SEC code so that information regarding the merchant identity and terminal location can be properly communicated to the RDFI.

**Other Considerations on When to Use WEB Rather Than Other SEC Codes for Scenarios Involving Mobile Devices**

Mobile technologies are creating new mechanisms for initiating ACH entries. The following discussion and scenarios provide additional guidance on

when it is, or is not, appropriate to use the WEB SEC code.

When a consumer Receiver key enters information into a mobile device or computer as a means to communicate that information over the Internet to the Originator's servers, the transaction should be coded as a WEB Entry, even if the mobile device or computer is owned by the Originator. An example of this scenario is when a consumer enters his or her account information on an insurance company's web page, to authorize a debit to pay for an insurance premium, even if the consumer does so on an insurance agent's laptop or tablet computer. The WEB SEC code should be used in this scenario regardless of the physical location where the consumer and the agent meet (e.g., consumer's home, agent's office, local coffee shop). The fact that the consumer and the agent are meeting together does not result in the use of the POS SEC code, because the agent's laptop is being used as a means to communicate information over the Internet, not as a POS device.

By contrast, a Point of Sale (POS) Entry is a debit entry to a Consumer Account that is initiated by a Receiver to pay for a purchase of goods or services at an "electronic terminal" at the point of sale or to receive cash back at such a location. This term is intended to be interpreted as defined in Regulation E, and the reference to "point of sale" means the Entry must be initiated by the Receiver in-person at the Originator's electronic terminal. (Adjustments and other credit Entries related to an original POS debit Entry are also coded as "POS," but may be initiated through back office reconciliation processes.)

Examples of electronic terminals for this purpose are traditional terminals at stationary point-of-sale locations such as grocery store cash registers or automated gasoline pumps. The term also includes more innovative technology, such as mobile devices owned or leased by a merchant that are used as mobile check-out terminals, even if the merchant uses the mobile device at a location that is not owned or rented by the merchant. For example, a mobile tablet device that is used by a farmer to accept payments at various farmers' markets around the state would be a point-of-

sale electronic terminal for this purpose, and ACH transactions initiated at such a device should be coded as POS.

It is also important to differentiate for this purpose the proper use of the POS, MTE, POP and BOC SEC codes. The following scenarios would not result in the use of the WEB SEC code, even if any part of the transaction utilizes a mobile device:

- If a transaction at a point-of-sale electronic terminal is initiated with an “access device” (as that term is defined in Regulation E) or with account and routing and transit information that is not machine-read from the MICR line, then POS is the correct SEC code to use.
- If the electronic terminal is an ATM (automated cash dispensing machine), then MTE is the appropriate SEC code to use.
- If the transaction is initiated by capturing information from the MICR line of a check through a reading device at the point-of-purchase and returning the check to the consumer, then POP is the correct SEC code to use.
- If the transaction is initiated by capturing information from the MICR line of a check through a reading device at the point-of-purchase itself or later for subsequent conversion during back-office processing, and the check is not returned to the Receiver, then BOC is the correct SEC code to use.

## UNSECURED ELECTRONIC NETWORK

The Internet is an unsecured electronic network, even though secure transmissions may be made over that otherwise unsecure network.

A network, public or private, is an unsecured electronic network if:

1. it is not located entirely within a single, contiguous, physical facility, and
2. transmits data via circuits that are not dedicated to communication between two end-points for the duration of the communication, or

3. transmits data via wireless technology

- excluding a communication that begins and ends with a wireline connection, but that is routed by a telecommunications provider for a portion of the connection over a wireless system.

## COMMERCIALLY REASONABLE

For all WEB entries, each Originator is obligated to ensure that certain aspects of a transaction have been handled in a commercially reasonable manner. In addition, each ODFI warrants that the Originator has handled those aspects of a transaction in a commercially reasonable manner. Those aspects of the transaction include commercially reasonable methods of authentication to verify the identity of the Receiver, fraudulent transaction detection systems, methodology to establish a secure Internet session, and procedures to verify the validity of the RDFI's routing number.

*For a discussion on the concept of commercially reasonable standards, please refer to Chapter 4 of these Guidelines.*

## SINGLE-ENTRY V. RECURRING

The WEB Standard Entry Class Code applies to both recurring and Single-Entry Internet/Mobile-initiated payments. In the case of WEB entries, a Single-Entry payment means a one-time transfer of funds initiated by an Originator in accordance with the Receiver's authorization for a single ACH debit to the Receiver's account.

For example: A Single-Entry WEB transaction would be initiated if a consumer purchases a book online.

A recurring WEB entry is:

1. an entry that has been set up to occur, based on the Receiver's authorization obtained via the Internet or a Wireless Network, at regular intervals without any additional intervention of the Receiver.

Example: A monthly debit to the Receiver's account for a mortgage payment



- multiple entries, based on an authorization provided by the Receiver establishing a relationship with the Originator for a specific type of activity, that are originated each time upon the specific instructions of the Receiver.

Example: An instruction via mobile device to a broker to purchase or sell securities.

There are two primary reasons why a distinction has been made between recurring and Single-Entry WEB transactions:

- Single-Entry payments have the potential to be more risky because the Originator and Receiver may not have a prior relationship established, which makes robust authentication more difficult and the possibility of fraud and exception processing higher.

Example, a one-time purchase of expensive electronic equipment is thought to be more susceptible to fraud than a recurring payment for a telephone bill.

While all of this is subjective and depends on each unique transaction, it is important for both Originators and ODFIs to be able to recognize these payments in order to monitor them separately for risk management purposes.

- To ensure that a Receiver has the ability to place a stop payment order on a Single-Entry WEB transaction, the *NACHA Operating Rules* allow a Receiver to provide a stop payment order to his financial institution as long as it is given in such a time and manner that allows the RDFI a reasonable opportunity to act on the stop payment order prior to acting on the debit entry. For a recurring payment, the Receiver has the right to place a stop payment only as long as the request for the stop payment is made at least three banking days prior to the scheduled Settlement Date of the entry. The RDFI may, at its discretion, honor such a stop payment order received within this three banking day period.

## ACH DATA SECURITY REQUIREMENTS

The *NACHA Operating Rules* impose specific data security requirements for all ACH transactions that involve the exchange or transmission of banking

information (which includes, but is not limited to, an entry, entry data, a routing number, an account number, and a PIN or other identification symbol) via an Unsecured Electronic Network. ACH participants must abide by these requirements.

***ACH data security is discussed in detail in Chapter 4 of these Guidelines.***

## OBLIGATIONS OF ORIGINATORS

### ***Agreements with ODFIs***

Originators choosing to utilize the ACH Network for initiating WEB transactions should consider modifications to their agreements with their ODFIs to address the origination of these entries.

These modifications should address:

- the extent to which the Originator and ODFI will share liability for WEB transactions, and
- should define any specific processing obligations relating to such transactions

Example: The *NACHA Operating Rules* require an Originator of WEB entries to conduct or have conducted on its behalf, annual audits to ensure that the financial information it obtains from Receivers is protected by security practices and procedures.

***For more information on agreements, refer to Chapter 5 in these Guidelines.***

### ***Authorization Requirements***

Originators of WEB entries must obtain the Receiver's authorization prior to initiating a debit entry under this application. Although the *NACHA Operating Rules* do not prescribe specific authorization language for the WEB application, the authorization must conform to the requirements of the *NACHA Operating Rules*, which require that:

- the authorization must be in a writing that is signed or similarly authenticated by the Receiver via the Internet or a Wireless Network, or
- the authorization is obtained in any manner permissible for other Standard Entry Class Codes, but the Receiver's instructions for the

initiation of the debit entry is communicated via a Wireless Network (other than by an oral communication), and

3. the authorization must be readily identifiable as an ACH debit authorization;
4. the authorization must express its terms in a clear and readily understandable manner; and
5. the authorization must provide the Receiver with a method to revoke his authorization by notifying the Originator in the manner prescribed.

To meet the first requirement that the authorization be in writing, in the context of WEB entries, the Receiver must be able to read the authorization language displayed on a computer screen or other visual display. The Originator should prompt the Receiver to print the authorization and retain a hard copy or electronic copy. The Originator must be able to provide the Receiver with a hard copy of the authorization if requested to do so. Only the Receiver may authorize the WEB transaction, and not a Third-Party Service Provider on behalf of the Receiver.

The *NACHA Operating Rules* allow the use of a digital signature or code to similarly authenticate a written authorization. Examples of methods used to similarly authenticate an authorization include, but are not limited to, the use of digital signatures, codes, shared secrets, PINs, biometrics, etc. To satisfy the requirements of the *NACHA Operating Rules*, which parallel Regulation E, the authentication method chosen must identify the Receiver and demonstrate the Receiver's assent to the authorization.

Originators should understand the distinction between authenticating a Receiver for general use on a website (or marketing purposes, etc.) and authentication in the context of an authorization. Authentication of an authorization is strongest when the authorization and the authentication of that authorization occur simultaneously or nearly simultaneously. Although an initial website session log-in may constitute adequate authentication for a click-through authorization as part of the same session, Originators and ODFIs should consider

the strength of the association of an initial log-in with a later authorization. The burden of demonstrating that the authentication process is sufficiently linked to the authorization will be on the Originator and ODFI.

***For a discussion on the concept of similarly authenticated, please refer to Chapter 16 within these Guidelines.***

One of the practical considerations for an Originator is how to present an authorization to a Receiver over the Internet that both meets the requirements of the *NACHA Operating Rules* and is easily understood. As long as the required information is included in the authorization language, Originators have the flexibility to draft the language in any way that is user-friendly for their customers.

The following pieces of information should be included in the authorization:

1. Express authorization language ("I authorize Company A" to debit my account)
2. Amount of transaction:
  - for a Single-Entry payment
  - for a recurring entry that is for the same amount each interval, or
  - for a range of payments
3. The effective date of the transaction
4. The Receiver's account number
5. The Receiver's financial institution's routing number
6. Revocation language

Originators must retain records of a Receiver's authorization for two years after the termination or revocation of the authorization. In the physical world this record would be an original or copy of the signed authorization. In the electronic world where the authorization will be similarly authenticated, the Originator must keep a copy of the authorization and a record of the authentication.



The Originator must also be able to provide these records to the ODFI upon its request. The ODFI may request these records either for its own use or to forward to the RDFI (the Receiver's financial institution).

In the event that an Originator must demonstrate proof of a Receiver's authorization to a WEB entry, it should provide documentation that provides transaction details including Receiver information and sales documentation to show what goods and/or services were exchanged.

Example: Originators can provide a screen shot of the authorization language and then the date/timestamp of the Receiver login and the authorization process that evidenced both the consumers' identity and his assent to the authorization.

## RISK MANAGEMENT

To help mitigate the added risk associated with Internet/Mobile payments, Originators are obligated to comply with stringent risk management requirements when originating WEB entries. At a minimum, Originators of such entries must implement the following risk management techniques:

### **Authentication**

The best way Originators can minimize the potential for fraudulent Internet/Mobile initiated ACH transactions is to employ robust authentication methods to verify the identity of the Receiver before accepting ACH debit authorizations online. The more robust the authentication, the less likely the transaction will be fraudulent and the less likely the payment will be returned to the Originator as unauthorized. Since the Originator may ultimately be responsible for unauthorized or fraudulent ACH transactions when those transactions are returned, it is to their benefit to incorporate adequate levels of authentication into their online ACH payment processes.

When considering which authentication methods to use, Originators should determine whether their WEB entry transactions will be conducted

with existing customers, new customers or both. Originators with an established business relationship with the Receiver — whether established online, in person, over the telephone, or some other method — can usually authenticate those customers using shared secrets such as a PIN, password or previous transaction history.

The Originator has the responsibility to choose an appropriate solution for authentication that will minimize the potential for fraudulent transactions. Common examples in use today include asking for several forms of identifying information and checking that information against databases; asking challenge questions based upon credit bureau or other information; or sending the Receiver a specific piece of information, either online or offline, and then asking the Receiver to verify that information as a second step in the authentication process.

Originators should understand trends in the adoption of multifactor authentication and layered security, or additional risk mitigation controls to verify the identity of the Receiver in the financial services industry. The Federal Financial Institution Examination Council (FFIEC) released guidance to financial institutions in October 2005, *Authentication in an Internet Banking Environment*, which provides an appendix that describes several of the authentication techniques, processes and methodologies that are widely available in the marketplace.<sup>8</sup> Originators should periodically refer to the FFIEC for any updates to this guidance.

Though user ID/PIN/password are still the most common solution for online authentication, there is growing interest in replacing passwords with more robust authentication such as use of additional authentication factors or securities layers.

For circumstances that demand heightened protection, institutions may consider multifactor authentication. Multifactor authentication uses multiple characteristics to determine a Receiver's identity, for example by obtaining and verifying more than one of the following:

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<sup>8</sup> *The FFIEC Guidance, Authentication in an Internet Banking Environment, is available at [http://www.ffiec.gov/pdf/authentication\\_guidance.pdf](http://www.ffiec.gov/pdf/authentication_guidance.pdf)*

- something the Receiver knows (password),
- something the Receiver has (a personal computer),
- something the Receiver is (voice or fingerprint), and
- someplace the Receiver is (geolocation).

Some other factors to consider in selecting an authentication method that is commercially reasonable include typical transaction amount, type of goods offered, method of delivery, and control of goods or funds. It is important to note that it will never be considered commercially reasonable to have done nothing. Similarly, simply assigning a password without validation of user identity and allowing the Receiver to use that password in the same Internet session as the sole method of authenticating the Receiver is also not commercially reasonable.

### ***Fraudulent Transaction Detection Systems***

Using fraudulent transaction detection systems to screen WEB entries reduces the potential for fraudulent ACH transactions. Fraudulent transaction detection systems employ different methodologies and different features at varying costs. The choice of which features should be included in a fraudulent transaction detection system for a particular Originator is generally a decision to be made by the Originator.

Examples of fraudulent transaction detection systems are systems that track payment history, behavior, purchase type, delivery information, etc. Factors to consider when choosing a fraudulent transaction detection system include, but are not limited to:

- the number of transactions processed by the Originator,
- the average dollar size of each transaction,
- the typical relationship with the Receiver (existing or new), and
- the type of goods or services being sold.

A fraudulent transaction detection system must be used no matter how small the transaction amount or type. To not deploy any method or procedure to detect transaction fraud is not considered commercially reasonable.

### ***Annual Data Security Audits***

Data loss or compromise not only hurts the Receiver, but can also damage a business's reputation. Receiver trust is a key factor in building loyalty. It is in the Originator's best interest to develop and deploy practices that protect the integrity of Receiver information and the transaction, and to ensure that these practices are audited for their effectiveness.

The *NACHA Operating Rules* for WEB transactions require Originators to conduct an annual data security audit to ensure that Receivers' financial information is protected by security practices and procedures that ensure that the financial information that the Originator obtains from Receivers is protected by commercially reasonable security practices that include adequate levels of:

1. physical security to protect against theft, tampering, or damage,
2. administrative, technical, and physical access controls to protect against unauthorized access and use, and
3. network security to ensure secure capture, transmission, storage, distribution and destruction of financial information.

While the *NACHA Operating Rules* only require Originators to conduct an audit of their security practices and procedures once a year, many companies are now opting to audit these practices bi-annually or even quarterly due to the rapid change of technology and security risks. It is therefore highly recommended that Originators of WEB entries also conduct more frequent audits.

This audit requirement can be met in several ways. It can be a component of a comprehensive internal or external audit, or it can be an independent audit that uses a commercially reasonable generally accepted security compliance program. An Originator that is already conducting an audit of these practices and procedures for another area of its business is not required to have two separate audits. However, the audit should address adequate levels of data security for the Originator's ACH operations.

The following sections detail the minimum components that need to be audited in order to be in compliance with the audit requirement. (Note: In any case where these key components are not specifically required under the *NACHA Operating Rules*, all are recommended by NACHA as sound business practices.)

1. *Physical security to protect against theft, tampering or damage*

- Critical network, server, and telecommunications equipment should be placed in physically secure locations that permit access only to authorized personnel.
- Firewalls must be fully deployed with secured processes for administering those firewalls.
- Firewalls must protect websites from inappropriate and unauthorized access.
- Disaster recovery plans must be developed and reviewed periodically.

2. *Personnel and access controls to protect against unauthorized access and use*

- A formal set of security policies and procedures must be developed that clearly outline the corporate rules governing access to sensitive financial data.
- Hiring procedures should be developed that will, at a minimum, verify application information and check references on new employees that will have access to Receiver financial information.

- Relevant employees must be educated on information security and company practices and their individual responsibilities.

- Access controls should be in place to ensure adequate administrative, technical, and physical controls:

- Limit employee access to secure areas and to documents/files that contain Receiver financial information.

- Ensure that terminated employees have no access to secure information and areas.

- Permit visitors only when absolutely necessary to these areas and information and ensure they are accompanied by an employee at all times.

- Authenticate all access to any database containing sensitive ACH information such as financial information (e.g., passwords or passphrase, multifactor authentication such as token devices, smart cards, biometrics, or public keys).

- Implement key-management procedures to require split knowledge for dual control of keys (e.g., requiring two or three people (or processes or procedures) to cooperate in gaining authorized access to a system resource (data, files, devices) – a separation of duties).

- Establish policies and procedures to monitor and audit all user activity for personnel with access to Receiver information in order to detect exceptions.

3. *Network security to ensure secure capture, transmission, storage, distribution, and destruction.*

- Install and maintain a firewall configuration to protect all Receiver financial information, including but not limited to the company network and databases, and portable electronic devices (e.g., employee laptops, smartphones, etc.)

- Install and update anti-virus software on a regular basis.
- Ensure all system components have the latest vendor-supplied security patches installed.
- Change vendor-supplied defaults before installing a system on the network.
- Minimize retention and/or storage of all Receiver financial information.
- Develop a data retention and disposal policy and schedule to include a process (manual or automatic), to remove, at least on a quarterly basis, any unnecessary Receiver financial information. Monitor these retention schedules regularly.
- Receiver financial information should only be stored permanently if it is required by law, regulation, rule, or a governing organization.
- Limit distribution of Receiver financial and personal information and implement procedures and policies to govern the distribution of sensitive financial information.
- Review data distribution policies and procedures periodically.
- Encrypt Receiver data and financial information at all points in the transaction lifecycle from transmission to storage (e.g., 128-bit RC4 encryption technology or equivalent).
- Regularly test security systems and processes (e.g., vulnerability scans, external and internal penetration testing, intrusion detection, file integrity monitoring).

It is important to note that for transactions that involve some use of the Internet but are not defined as WEB transactions, Originators are encouraged to incorporate the security and risk management principles of the WEB rules, as applicable. For example, it would still be advisable for the Originator to authenticate the Receiver and conduct a data security audit to ensure the Receiver's data is stored securely.

### **Verification of Routing Numbers**

Many WEB entries are Single-Entry payments, and Receivers frequently enter their routing numbers manually using a keyboard. To minimize exception processing related to WEB entries, each Originator is required to employ commercially reasonable procedures to verify that routing numbers are valid. Originators should try to ensure that the Receiver enters the routing number correctly and that it is a valid RDFI routing number for ACH transactions.

Verifying the validity of routing numbers can be accomplished by:

- a component of a fraudulent transaction detection system,
- through a separate database or directory (either commercial or proprietary), or
- through other methods devised by the Originator, for example manual intervention such as calling the Receiver's financial institution.

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## SECTION VI

# Special Topics

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### CHAPTER 50

### **Third-Party Service Providers**

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A Third-Party Service Provider is an organization other than an Originator, ODFI, or RDFI that performs a function of ACH processing on behalf of the Originator, the ODFI or the RDFI. A function of ACH processing could be the act of creating an ACH file on behalf of an Originator or ODFI or acting as a Sending Point or Receiving Point on behalf of an ODFI or RDFI, respectively. A Third-Party Service Provider could also take on the role of a Third-Party Sender, acting as an intermediary between

the ODFI and the Originator with respect to the initiation of ACH transactions. The organization acting as a Third-Party Service Provider could be a data processing service bureau, correspondent bank, payable through bank, or simply a financial institution acting on behalf of another financial institution.

Use of a Third-Party Service Provider can greatly enhance the origination and receiving capabilities of the ODFI and RDFI. It is important that both the ODFI and the RDFI are aware of their responsibilities in ACH processing and ensure that those responsibilities are being met even if a third party is performing the processing function. Using a Third-Party Service Provider as a processing agent does not relieve the financial institution of its obligations under the *NACHA Operating Rules*, nor does it change the timing when actions must be taken, e.g., use of a Third Party does not modify the returns deadline.

## ROLE OF THE THIRD-PARTY SERVICE PROVIDER

Third-Party Service Providers play increasingly larger and more complex roles in the processing of ACH transactions. To understand the impact of rule provisions on Third-Party Service Providers, it is essential to have a clear understanding of the specific roles Third-Party Service Providers play in the ACH Network and the distinction between a Third-Party Service Provider and an Originator.

### **Originator**

The definition of an Originator clearly distinguishes between an Originator of an ACH entry or file and a Third-Party Service Provider to whom some portion of the Originator's ACH processing requirements are outsourced. For purposes of the *Rules*, an Originator is defined as:

A person that has authorized an ODFI (directly or through a Third Party Sender) to transmit, for the account of that person a credit entry, debit entry, or non-monetary entry to the Receiver's account at the RDFI.

The Originator is the party who has the contractual relationship with the Receiver and to or from whom

funds are ultimately owed. In some situations, the Originator may enter into a contractual agreement with a Third-Party Service Provider, such as a payroll processor or other type of service provider, to process the company's payments. In these cases, the Third-Party Service Provider, rather than the ultimate Originator of the payments, may have the contractual relationship with the ODFI and the account against which the funds are settled. While this business model is commonplace in today's payments environment, it is important that ACH participants recognize that the Third-Party Service Provider is not the Originator of the transactions.

### **Third-Party Service Provider**

A Third-Party Service Provider is an entity other than an Originator, ODFI, or RDFI that performs any functions on behalf of the Originator, the ODFI, or the RDFI with respect to the processing of ACH entries, including, but not limited to, the creation of ACH files.

### **Sending Point**

A Third-Party Service Provider may act as a Sending Point, which is an entity that transmits entries to an ACH Operator on behalf of an ODFI. A Sending Point may be an ODFI acting on its own behalf, or a Participating DFI, a commercial data processing service organization, or a person operating a data transmission facility that acts on behalf of one or more ODFIs. (NOTE: The *NACHA Operating Rules* require an agreement between the ODFI and the Sending Point when a Sending Point is used by the ODFI to transmit ACH entries to the ACH Operator on its behalf.)

### **Receiving Point**

A Third-Party Service Provider may also act as a Receiving Point, which is an entity that receives entries from an ACH Operator on behalf of an RDFI. A Receiving Point may be an RDFI acting on its own behalf, a Participating DFI, a commercial data processing service organization, or a person operating a data transmission facility that acts on behalf of one or more RDFIs.

### **Third-Party Sender**

A Third-Party Sender is an organization that is not an Originator that has authorized an ODFI or a Third Party Service Provider to transmit, for



its account or the account of another Third-Party Sender a credit entry, debit entry, or non-monetary entry to the Receiver's account at the RDFI. An organization acting as Third-Party Sender is also a Third-Party Service Provider.

Third-Party Senders are a subset of Third-Party Service Providers. A Third-Party Sender is always a Third-Party Service Provider that acts on behalf of an Originator, but a Third-Party Service Provider does not always act as a Third-Party Sender. A Third-Party Service Provider is considered to be a Third-Party Sender when it acts as an intermediary between the ODFI and the Originator and there is no contractual agreement between the Originator and the ODFI. In this instance, the Third-Party Sender acts like the ODFI to the Originator. In any circumstance in which an Originator utilizes the services of a Third-Party Service Provider but has also executed a contractual agreement directly with the ODFI, the Third-Party Service Provider would not be considered a Third-Party Sender and would not be subject to the rule provisions governing Third-Party Senders. The *NACHA Operating Rules* require an agreement between the ODFI and the Third Party Sender. Third-Party Senders and their relationship with the ODFI are discussed in Chapter 21 of these *Guidelines*.

The following examples help clarify the specific circumstances in which a Third-Party Service Provider is also considered to be a Third-Party Sender.

#### Example # 1

An employer contracts with ABC Payroll to handle its payroll processing. ABC Payroll has a contractual agreement with its own financial institution, MegaBank, to originate ACH activity on its behalf, and ABC Payroll's account at MegaBank is credited or debited by MegaBank for settlement of the ACH transactions processed by ABC Payroll. In this example, there is no relationship between the employer and MegaBank, and they do not have a contractual agreement between them for the origination of ACH payments. Instead, ABC Payroll is an intermediary between the employer and MegaBank.

The employer in this example is the Originator of the payroll file because it is legally obligated

to pay its employees, the Receivers. ABC Payroll is a Third-Party Service Provider performing the function of creating the payroll file on behalf of the Originator and transmitting it to the ODFI. ABC Payroll is also a Third-Party Sender because it is acting as an intermediary between the employer (the Originator) and MegaBank (the ODFI) and no contractual agreement exists between the ODFI and the Originator.

#### Example # 2

An employer contracts with ABC Payroll to handle its payroll processing. ABC Payroll formats the ACH file on behalf of the employer and forwards it on to MegaBank, with which the employer has a contractual agreement to originate ACH activity on its behalf. In this case, the employer holds an account with MegaBank that is credited or debited by MegaBank for settlement of the ACH transactions processed by ABC Payroll on the employer's behalf.

The employer in this example is the Originator of the payroll file because it is legally obligated to pay its employees, the Receivers. ABC Payroll is a Third-Party Service Provider performing the function of creating the payroll file on behalf of the Originator and transmitting it to the ODFI. In this scenario, however, ABC Payroll is not a Third-Party Sender because a direct contractual agreement exists between the ODFI and the Originator that binds the employer to the *NACHA Operating Rules*.

#### Example # 3

An employer contracts with ABC Payroll to handle its payroll processing. ABC Payroll has further contracted with ACH Pay Service Provider for the origination of its ACH processing into the ACH Network. ACH Pay Service Provider has a contractual agreement with its own financial institution, MegaBank, to originate ACH activity on its behalf, and ACH Pay Service Provider's account at MegaBank is credited or debited by MegaBank for the settlement of transactions processed by ACH Pay Service Provider. In this example, there is no relationship between the employer and MegaBank; they do not have a contractual agreement between them for the origination of ACH payments. Similarly, there is no contractual agreement between ABC Payroll and MegaBank



for the origination of ACH payments. In this case, there are two intermediaries (ABC Payroll and ACH Pay Service Provider) between the employer and MegaBank.

The employer in this example is the Originator of the payroll file because it is legally obligated to pay its employees, the Receivers. ABC Payroll and ACH Pay Service Provider are both Third-Party Service Providers acting as Third-Party Senders because they are acting as intermediaries between the employer (the Originator) and MegaBank (the ODFI) and no contractual agreement exists between the ODFI and the Originator. In this case, ACH Pay Service Provider would have an agreement with the ODFI (MegaBank) under which ACH Pay Service Provider agrees to be bound to the *NACHA Operating Rules*, and ABC Payroll would have agreements with both the Originator

(the employer) and the other Third-Party Sender (ACH Pay Service Provider), under which both ABC Payroll and the employer agree to be bound to the *Rules*.

## ORIGINATION OF ACH ENTRIES

The following figures provide several examples of how Third-Party Service Providers can be used in the process of originating transactions into the ACH system.

### Example A

Figure 50-1 provides an example of how a Third-Party Service Provider might be utilized to create the ACH file for delivery to the ODFI prior to delivery to the ACH Operator.

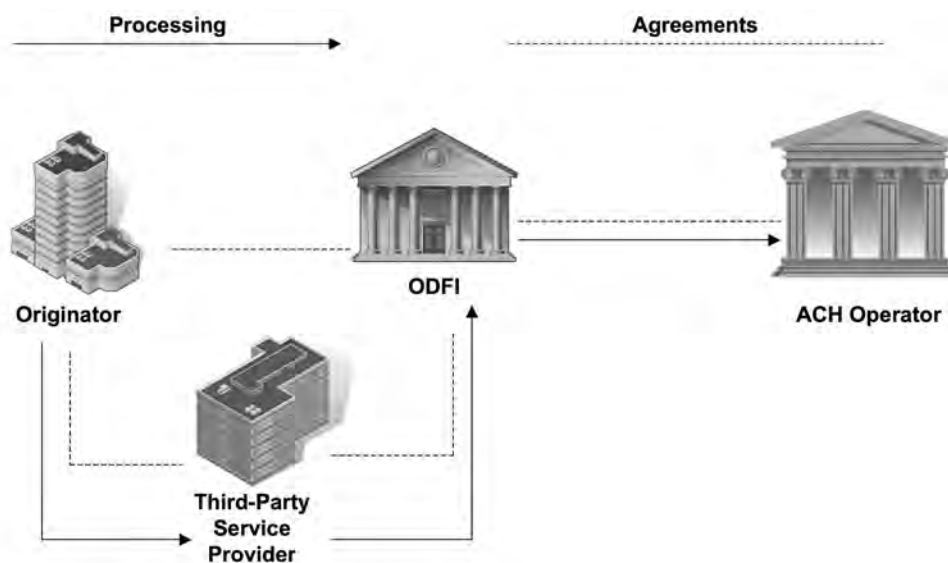


FIGURE 50-1

### Example B

Figure 50-2 shows how a Third-Party Service Provider could be utilized to initiate the ACH file directly into the ACH Network on behalf of the ODFI. The Third-Party Service Provider is acting as the Sending Point on behalf of the ODFI.

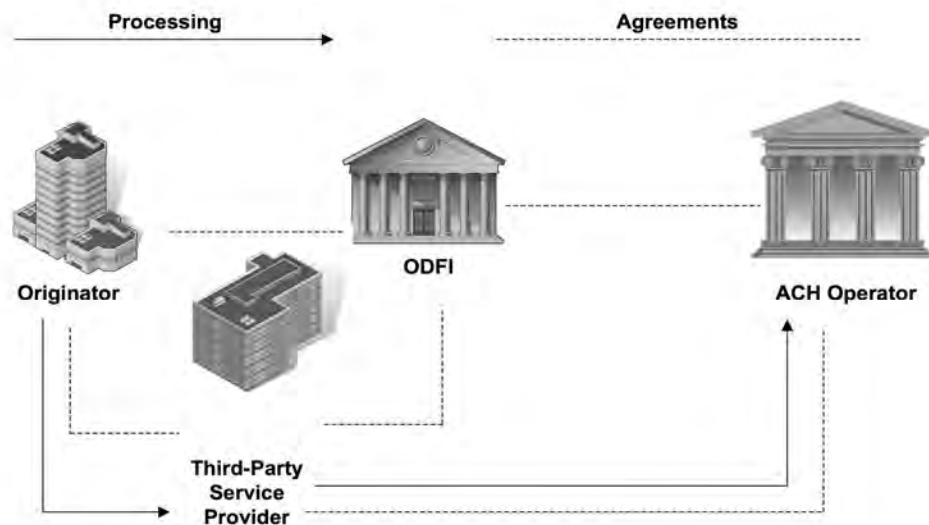


FIGURE 50-2

### Example C

Figures 50-3 and 50-4 provide illustrations of Third-Party Senders acting as intermediaries between

Originators and ODFIs, originating ACH entries on behalf of the Originators.

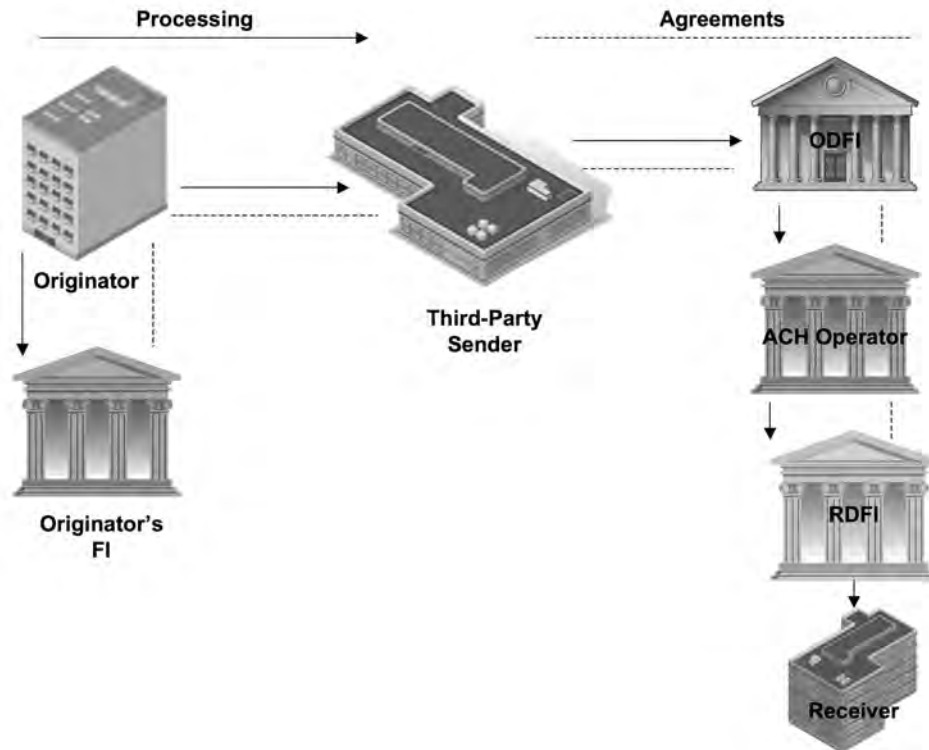


FIGURE 50-3

#### *Third-Party Sender Environment #1*

*No agreement exists between the Originator and ODFI, but TPS assumes new obligations through agreement with ODFI and through agreement with Originator.*

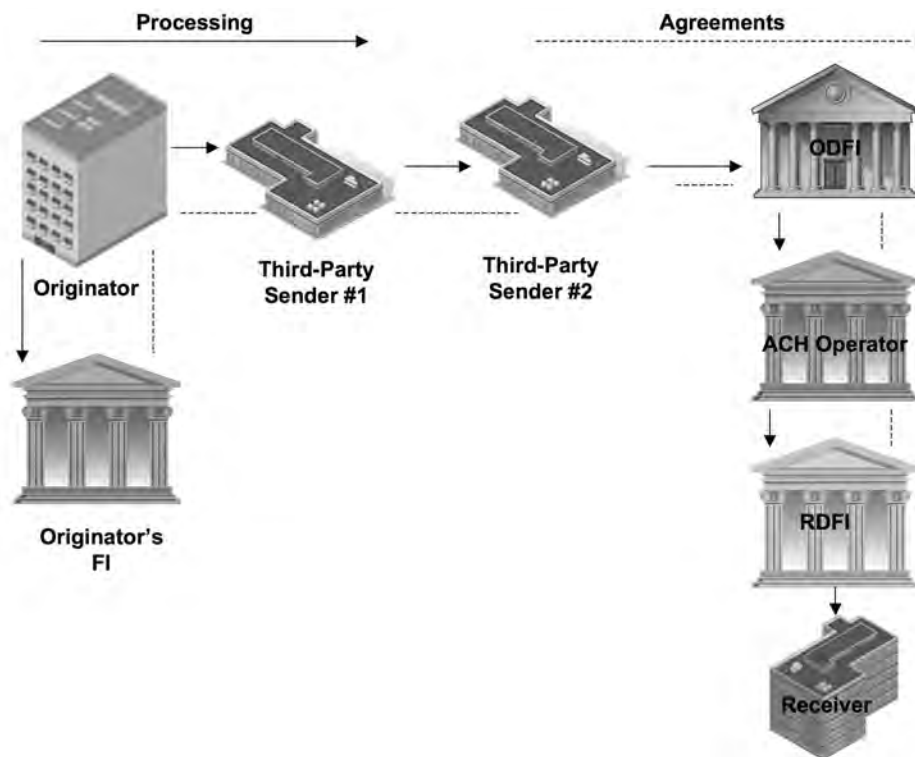


FIGURE 50-4

#### *Third-Party Sender Environment #2*

*No agreement in place between Originator and ODFI, but TPS assumes new obligations through agreement with ODFI and through agreement with Originator and Third-Party Senders.*

All participants in the origination process must clearly understand their roles and responsibilities in processing ACH files when a Third-Party Service Provider is used to perform an ACH processing function. The ODFI must be aware that there may not be controls in the ACH Operator software to

control the dollar value or the type of transaction to be originated. Since the ODFI is responsible for the ACH entry, direct access to the ACH Network (i.e., as a Sending Point) by a Third-Party Service Provider should be analyzed very closely by the ODFI.

### **Agreements**

The *NACHA Operating Rules* require either (1) the execution of a contractual agreement between the Originator and the ODFI under which the Originator agrees to be bound by the *Rules* and acknowledges that it may not initiate entries in violation of the laws of the United States, or (2) the execution of appropriate agreements (i.e., between ODFIs and Third-Party Senders, between Third-Party Senders and Originators, and between multiple Third-Party Senders themselves) under which the Third-Party Senders agree to be bound by the *NACHA Operating Rules* and Originators agree to assume the responsibilities of Originators under the *Rules* and acknowledge that entries may not be initiated in violation of the laws of the United States.

***A matrix of issues to consider for the ODFI/Originator and ODFI/Third-Party Sender agreements is provided in Appendix C of these Guidelines.***

### **Third-Party Service Providers**

When agreements have been executed between the Originator and the ODFI, it is also recommended that agreements be entered into between the Originator and the Third-Party Service Provider, and between the Third-Party Service Provider and the ODFI. The ODFI may decide to execute an agreement with the Third-Party Service Provider depending on the facts and circumstances of its business arrangement. In any case, these agreements should address responsibilities of each party regarding quality of data, input schedules and deadlines, and any other issues pertinent to the actual processing and delivery of the payment data.

### **Example A**

Some Third-Party Service Providers actively market ACH applications to Originators. The ODFI should ensure that its agreement with the Originator clearly provides that the Originator is responsible for work transmitted by a Third-Party Service Provider acting on the Originator's behalf. Such a provision provides protection to the ODFI, especially where no agreement exists between the ODFI and Third-Party Service Provider.

### **Example B**

The ODFI must ensure that all agreements with its ACH Operator(s) properly identify all Sending Points when the ODFI uses the facilities of a Third-Party Service Provider as indicated in Example B.

In addition to the agreements with the ACH Operator(s), the ODFI must also ensure that proper agreements are in place between the ODFI and all Originators. Once a third party is established as a Sending Point for an ODFI, it is possible that entries could be initiated into the ACH Network for a new Originator without the knowledge of the ODFI. The ODFI must establish procedures with its Third-Party Service Provider to keep the ODFI informed of all ACH activity that is sent into the ACH system.

### **Third-Party Senders**

### **Example C**

In this example, no direct contractual agreement exists between the Originator and the ODFI. As a result, the ODFI is exposed to an increase in credit risk because it has no direct claim against the Originator with respect to credit entries originated and for any debit entries returned by the RDFI, to the extent that the ODFI does not receive payment from the Third-Party Sender. The *NACHA Operating Rules* require that the ODFI and Third-Party Sender enter into an origination agreement that, among other things, obligates the Third-Party Sender (i) to comply with the *NACHA Operating Rules* and (ii) to enter into an agreement with the Originator that includes at least the same provisions required by the origination agreement between the Originator and the ODFI. Such agreements help protect the ODFI against credit risk by providing it with the ability to seek recovery of payment directly from the Originator. These agreements should address the responsibilities of each party with respect to financial liability for each transaction, the quality of data, input schedules and deadlines, and any other issues pertinent to the actual processing and delivery of the payment data. The ODFI should ensure that there is a process in place for the Third-Party Sender to inform the ODFI of new Originators.

### *Issues That Should Be Defined in ODFI and Third-Party Service Provider Agreements*

The agreement between the ODFI and Third-Party Service Provider should:

- establish credit limits for batches and entire files. A batch or file that exceeds the credit limit should be brought to the ODFI's attention before the file is deposited so the ODFI can either approve it as an exception or ask that it be held until the next day;
- ensure senior management is aware of the practice of utilizing a Third-Party Service Provider;
- require that the Third-Party Service Provider not begin originating ACH entries for new companies under the ODFI's routing number without prior approval from the ODFI. The ODFI's approval of each company should be contingent upon the creditworthiness of the company;
- require that the Third-Party Service Provider notify the ODFI of dollar totals for each file the processor deposits so that the ODFI can reconcile activity and settlement totals on reports from the ACH Operator; and
- address who will be responsible for erroneous entries, who will handle rejects and in what time frame, who will handle returns and notifications of change, how customer inquiries will be handled, and what type of audit trail will be provided.

For Third Party Senders, the agreement must address any restrictions on the types of entries that can be initiated, the termination of the agreement for Third Party Sender (or any Originator processed by the Third-Party Sender) breach of the *Rules*, and the right of the ODFI to audit the Third Party Sender for rules compliance.

The ODFI should also request information about the processor's financial condition, operating environment, what measures the processor has taken to ensure that ACH files will be handled accurately and on time, what type of physical security the processor has, how the data confidentiality is maintained, etc.

### Electronic Records/Record Retention

The *NACHA Operating Rules* permit ACH participants to retain ACH records electronically as an alternative to retaining such documents in hard copy format. Specifically, the *Rules* allow any record, including any agreement, authorization, or Written Statement of Unauthorized Debit, required to be in writing by the *NACHA Operating Rules* to be created and retained in either hard copy or electronic form. The electronic record must (1) accurately reflect information contained within the record, and (2) be capable of being accurately reproduced for later reference, whether by transmission, printing, or otherwise. Electronic records and record retention are addressed in Chapter 4 of these *Guidelines*.

### **Warranties and Indemnifications**

Even if an ODFI utilizes a Third-Party Service Provider in the origination process, the ODFI is responsible for the entries that it originates into the ACH system. The ODFI warrants that it has entered into an agreement with the Third-Party Service Provider when the third party is used to transmit ACH entries directly into the ACH Operator.

The ODFI also warrants that any Third-Party Service Provider that performs a function of ACH processing on behalf of the ODFI with regard to entries has conducted an annual audit of compliance with the provisions of the *NACHA Operating Rules*. For more information on rules compliance audit requirements as they apply to a Third-Party Service Provider acting on behalf of an ODFI, refer to the Rules Compliance Audit Requirements section within this chapter.

The ODFI's Routing Number appears in the Company/Batch Header Record and is repeated in the first eight digits of the Trace Number in the Entry Detail Record and Addenda Records. The financial institution that is represented by that Routing Number is responsible for the warranties and indemnifications set forth in *NACHA Operating Rules*.

The Sending Point can be the ODFI itself or an organization other than the ODFI. The Sending Point is identified by the Routing Number in the



Immediate Origin field in the File Header Record. Even if the Routing Number in the Immediate Origin field is that of a Third-Party Service Provider, it is the financial institution represented by the Routing Number in the Originating DFI Identification Field that is considered the ODFI.

For all the reasons discussed above, it is critical that ODFIs include use of a Third-Party Service Provider for origination in their overall procedures for analyzing risk and fraud.

### ***Third-Party Sender Obligations***

Each Third-Party Sender is subject to a number of additional obligations and liabilities with respect to the transmission of ACH entries.

- *Identification of Originators* – The *Rules* obligate each Third-Party Sender to provide the ODFI with any information that the ODFI considers to be reasonably necessary to identify each Originator for which the ODFI transmits entries. Upon the receipt of a request from the ODFI for such information, the Third-Party Sender must provide the requested data to the ODFI within two banking days.
- *Warranties of/Indemnifications by Third-Party Senders* – Each Third-Party Sender that authorizes an ODFI to transmit entries to a Receiver's account warrants to the ODFI that the Originator has agreed to assume the responsibilities of an Originator, as required by the *NACHA Operating Rules*. In any case in which the Originator fails to perform its obligations as an Originator under the *Rules*, the Third-Party Sender indemnifies the ODFI against any loss.
- *Performance of ODFI Obligations* – If a Third-Party Sender performs any obligations of an ODFI under the *Rules*, the Third-Party Sender must also perform the requirements of an ODFI under the *Rules*, and must warrant that it is legally able to do so. The *Rules* do not relieve the ODFI of any of its obligations when they are performed by a Third Party Sender.
- *Payment to ODFI* – Each Third-Party Sender is obligated to make payment to the ODFI for all credit entries and for all debit entries that are returned by the RDFI. In the event that the

ODFI does not receive payment from the Third-Party Sender, the Originator of the entry agrees to pay the ODFI.

- *Performance of Originator Responsibilities* – The Third-Party Sender and its Originators are responsible for the retention and delivery of any records, documentation and data related to copies of items, copies of source documents or records of authorization.

### ***Reversals/Erroneous Entries***

It is critical that responsibility and accountability for errors are identified and understood prior to the origination of entries. The following issues need to be resolved between the ODFI, Originator, and third party:

- Who is responsible for detecting errors?
- Who is responsible for correcting errors?
- In what time frame can errors be corrected?
- Who will notify the Receiver of a reversing entry (e.g., the Originator, or ODFI/Third Party on behalf of the Originator)?
- Who is liable for any claim that may result from an error?

### ***Audit Trails***

ODFIs that use Third-Party Service Providers must establish procedures for tracing an entry into the ACH system. The organization that is the Sending Point is usually responsible for providing the necessary data that demonstrates delivery to the ACH Operator. In addition, some form of audit trail must be created in order to track the delivery of information from one party to the next until it reaches the Sending Point and, subsequently, the ACH Operator.

### ***Returns/NOCs/Rejected Entries***

Returns, notifications of change, rejected entries, and notice of rejected files or rejected batches need to be handled expeditiously when they are received by the ODFI. The ODFI is responsible for determining, in its arrangements with Originators and Third-Party Service Providers, who is responsible for handling these entries.

## RECEIVING ACH ENTRIES

Figures 50-5 and 50-6 show how Receiving Depository Financial Institutions (RDFIs) can receive entries from the ACH Operator.

### Example A

Figure 50-5 provides an example of an RDFI that receives ACH files directly from the ACH Operator. The RDFI acts as its own Receiving Point.

### Example B

Figure 50-6 provides an example of an RDFI that utilizes the services of a third party to receive ACH files on its behalf. The RDFI's Receiving Point is the third party.

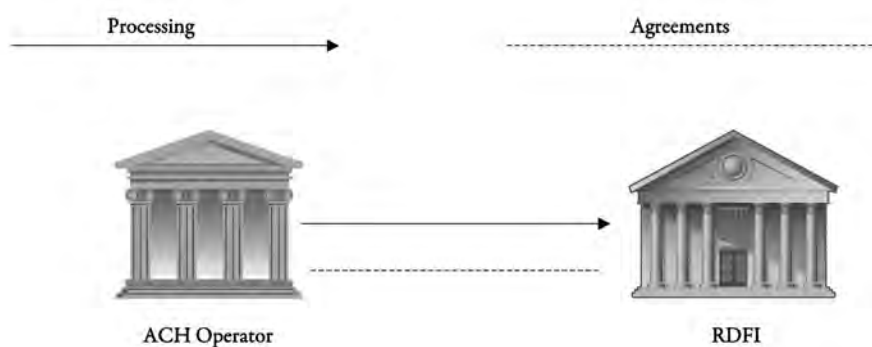


FIGURE 50-5

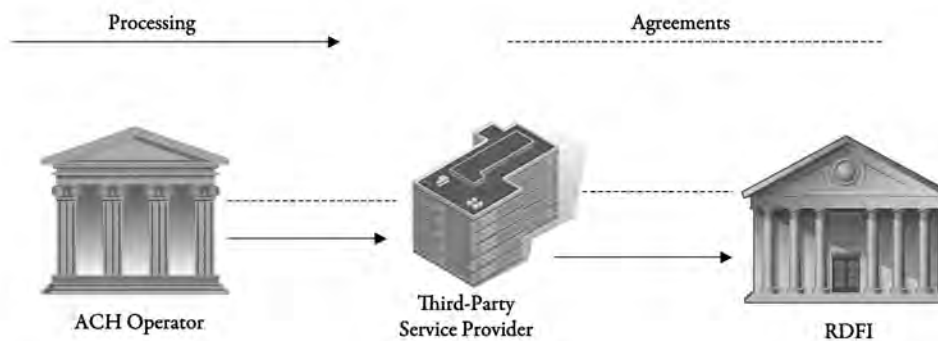


FIGURE 50-6

The responsibilities of the RDFI in both examples are outlined in the RDFI chapters in Section III of these *Guidelines*; however, the following provides additional information on areas of importance that should be addressed when a third party is used as a Receiving Point, as in Example B.

### **Agreements**

The RDFI needs to execute the appropriate agreements with its ACH Operator in order to have ACH files delivered to the proper Receiving Point. The RDFI should also enter into an agreement with the Third-Party Service Provider. This agreement should define the responsibility, accountability, and liability for the handling of ACH files. It should also address provisions for any additional services the processor may offer to the RDFI, such as processing returns, notifications of change, etc. Third-Party Service Providers should be aware that the *NACHA Operating Rules* permit RDFIs to obtain and retain ACH records electronically. For detailed information on electronic records and electronic record retention, refer to the Chapter 4 of these *Guidelines*.

### **Warranties and Indemnifications**

The RDFI is responsible for the entries made available to it by the ACH Operator, even if the RDFI utilizes a Third-Party Service Provider as a Receiving Point. The RDFI warrants that any Third-Party Service Provider that performs a function of ACH processing on behalf of the RDFI with regard to entries has conducted an annual audit of compliance with the provisions of the *NACHA Operating Rules* and is otherwise in compliance with the rules compliance audit requirements governing the RDFI.

The RDFI is identified by the Routing Number in the Receiving DFI Identification Field of the Entry Detail Record of ACH files. The Receiving Point is identified by the Routing Number in the Immediate Destination field of the File Header Record. If these two numbers are different, the organization represented by the number in the Immediate Destination field is the Third-Party Service Provider acting as a Receiving Point, and the financial institution represented by the number in the Receiving DFI Identification field of the Entry Detail Record is the RDFI. Even if the RDFI is not the Receiving Point, the RDFI must ensure

that its Receiving Point is processing the ACH files in a manner that allows the RDFI to comply with the *NACHA Operating Rules*.

### **Processing Functions**

The Third-Party Service Provider as Receiving Point can provide various levels of service to the RDFI.

#### ***Delivery Only***

An RDFI may choose to use a third party simply to receive the ACH file. In this instance, the Receiving Point usually is able to receive the file more quickly or more efficiently than the RDFI. All ACH Operators require electronic delivery to Receiving Points. Using a third party with electronic delivery capability would enable the RDFI to meet the electronic delivery requirements of its ACH Operator. However, RDFIs that use third parties as Receiving Points for the electronic delivery of ACH files must ensure that subsequent delivery of the information to the RDFI is accomplished in such a manner as to ensure compliance with the *NACHA Operating Rules*. For example, the RDFI that uses a third party for electronic delivery and subsequently receives ACH information from that third party via mail or courier will more than likely not be able to fulfill the requirements of an RDFI for funds availability and for meeting return deadlines.

#### ***Delivery and Processing***

An RDFI may choose to use a third party to receive and process its ACH activity. In this instance, the third party usually posts the ACH entries to the customers' accounts for the RDFI and generates reports to the RDFI indicating the functions it has performed. The RDFI must receive these activity reports expeditiously in order to fulfill the various responsibilities required of an RDFI for processing ACH entries, such as reviewing prenotifications, initiating returns and notifications of change. The Third-Party Service Provider must ensure that all of the payment information is passed to the RDFI exactly as it was received from the ACH Operator.

The processing function can also include data retention, statement processing, fulfilling disclosure requirements, etc. The RDFI should also ensure that its processor is recognizing addenda records that accompany ACH entries and is processing

them according to regulatory requirements or the specific requirements of the RDFI or the RDFI's account holders. For additional information on processing addenda records for business Receivers, see Chapter 39 of these *Guidelines*.

### *Additional Services*

In addition to performing the processing functions for an RDFI to properly receive ACH entries, the third party may also handle returns and notifications of change for the RDFI. The RDFI must ensure that the appropriate agreements have been completed with the ACH Operator that will enable the RDFI to use the Third-Party Service Provider for those functions.

## **RULES COMPLIANCE AUDIT REQUIREMENTS**

The *NACHA Operating Rules* require any Third-Party Service Provider that performs a function of ACH processing on behalf of an ODFI or RDFI to conduct an annual audit of compliance with the requirements of the *NACHA Operating Rules*. A function of ACH processing includes, but is not limited to, the creation of ACH files or acting as a sending or receiving point on behalf of a Participating DFI. Third-Party Senders must review their business models to determine which ODFI obligations they perform and audit accordingly.

Under the *NACHA Operating Rules*, ODFIs and RDFIs warrant the completion of such an audit by their Third-Party Service Providers and Third-Party Senders, as applicable. Financial institutions, Third-Party Service Providers acting on their behalf, and Third-Party Senders must retain documentation supporting the completion of an audit of ACH rules compliance for a period of six years from the date of the audit and must provide such documentation to the National Association upon request. Participating DFIs, Third-Party Service Providers, and Third-Party Senders should be aware that such documentation will not be asked for in an arbitrary manner. Proof of an audit will be requested only when deemed reasonably necessary by the National Association. Acceptable documentation may include, but is not limited to, a letter from an internal, outside or independent auditor indicating satisfactory performance of all audits.

The annual audit under these rules compliance audit provisions must be completed by December 31 of each year.

The audit provisions contained in the *Rules* do not prescribe a specific methodology to be used for the completion of an audit, but instead identify key rule provisions that should be examined during the audit process. ODFIs and their Third-Party Service Providers, and RDFIs and their Third-Party Service Providers should rely on the guidance of their auditors with respect to the specific auditing practices and procedures that must be followed. Please see Appendix Eight of the *NACHA Operating Rules* for a complete list of audit requirements.

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### CHAPTER 53

## **Interpretative Rules**

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This chapter is designed to provide ACH participants with an understanding of the process under which requests for formal interpretation of the *NACHA Operating Rules* will be accepted and processed. The objective of such *Rules* interpretations, as issued by the NACHA Board of Directors, is to promote the purposes of or to clarify the provisions of the *NACHA Operating Rules* by providing appropriate guidance about whether a potential or particular use of the rule provisions is inconsistent with the *Rules*. Formal *Rules* interpretations may also be issued for such other purposes as the Board deems appropriate.

Unlike oral interpretations from NACHA and information contained within the *Guidelines*, which have generally been utilized to help provide amplification of the *Rules* but are not binding on ACH participants, official interpretations of the *NACHA Operating Rules* that are issued under this process are as binding as the *Rules* themselves.

## **SUBMISSION REQUIREMENTS**

A request for a formal interpretation of the *NACHA Operating Rules (Rules)* must be submitted to the National Association by one of the following ACH participants: (1) a NACHA Direct Financial Institution member, (2) a Regional Payments

Association (either on its own behalf or on the behalf of its financial institution members), (3) an ACH Operator, (4) a member of the NACHA Board of Directors, or (5) NACHA staff.

The request for interpretation must be submitted in writing on the official letterhead of one of the ACH participants defined above and must be signed by an officer of the organization.

A written request for interpretation of the *Rules* must, at a minimum, include the following information:

- a detailed description of the issue or business process to be evaluated;
- a complete analysis (i.e., legal, rules, etc.) of the issue or business process, as applicable;
- identification of the specific rules affected; and
- any other relevant information.

Written requests should be directed to:

NACHA  
Network Rules Department  
13450 Sunrise Valley Drive, Suite 100  
Herndon, VA 20171

### **NATIONAL ASSOCIATION ACTION ON REQUEST FOR INTERPRETATION**

Upon receipt of a written request for a *Rules* interpretation, NACHA staff will review the documentation provided to ensure that all necessary documents have been included. A preliminary review will also be conducted to evaluate whether the issue:

1. appears merely to be a misinterpretation of existing rules and does not raise an issue of significance;
2. appears to require a rule amendment to address the concern; or
3. seems to require a formal interpretation of the *Rules* to clarify the intent of the *Rules*.

Following an initial review of the issue, NACHA staff will forward the issue, along with a summary of its preliminary evaluation of the issue, as described above, to the Rules & Operations Committee for action.

### **RULES & OPERATIONS COMMITTEE ACTION ON REQUEST FOR INTERPRETATION**

Upon receipt of a written request for rules interpretation and appropriate documentation from NACHA staff, the Rules & Operations Committee will conduct an evaluation of the request and determine which of the following criteria is applicable:

1. *The issue is a misinterpretation of existing rules and does not raise an issue of significance.*

In the event that the Rules & Operations Committee (i) determines that the issue does not have broad implications, (ii) determines that the Committee does not have sufficient information to make a decision on the issue, or (iii) decides for other reasons not to issue a written interpretation, the Committee will advise the submitter that no interpretation will be issued or that more information is needed. In such cases, NACHA will notify the submitter, via telephone, of the Committee's decision.

2. *The issue requires a rule amendment to address the concern.*

The Rules & Operations Committee may determine that the issue under consideration requires an amendment to the *NACHA Operating Rules*. In such situations, the Rules & Operations Committee will request that NACHA staff advise the submitter that a rule change is needed to address the concern and request the submission of a business idea into NACHA's Business Idea Evaluation Process.

3. *The issue requires a formal interpretation of the Rules.*

In the event that the Rules & Operations Committee determines that the issue under consideration has broad implications network-



wide, it will, with the assistance of NACHA staff, develop a recommended interpretation (with appropriate legal review) and forward that written interpretation to the NACHA Board of Directors for its review, approval, and issuance. All formal, written interpretations will include a reference to the section(s) of the *Rules* to which the interpretation relates.

## **NACHA BOARD OF DIRECTORS' ACTION ON PROPOSED INTERPRETATION**

The NACHA Board of Directors will review all proposed interpretations of the *Rules* recommended by the Rules & Operations Committee. If such interpretations are approved by the Board, they will be issued to the membership as discussed later in this Chapter. In the event that a proposed interpretation requires modification, the Rules & Operations Committee will be requested to develop a revised interpretation, which will be re-presented to the Board for further review and approval.

## **CONFLICTS OF INTEREST**

Members of the Rules & Operations Committee or Board of Directors that represent an organization requesting the issuance of a formal rules interpretation will be precluded from participating in the development and approval process for that particular rules interpretation to avoid the potential for any conflict of interest.

## **ISSUANCE OF FORMAL RULES INTERPRETATIONS**

Once approved by the NACHA Board of Directors, a formal, written interpretation of the *NACHA Operating Rules* will be distributed to the NACHA family in the form of an Operations Bulletin. These Operations Bulletins will also be accessible via NACHA's website.

Formal rules interpretations will also be published within the *NACHA Operating Rules & Guidelines: A Complete Guide to Rules Governing the ACH Network* and included as part of the ACH Rules Online.

## **PERIODIC REVIEW OF WRITTEN INTERPRETATIONS**

When amendments to the *NACHA Operating Rules* are implemented, it is possible that the change may affect a section of the *Rules* about which a formal interpretation has been issued. In such situations, the Rules & Operations Committee will review existing written interpretations to determine whether such interpretations are still relevant and appropriate. If the Committee makes a recommendation that these interpretations should be removed, the Board of Directors would vote on such recommendation.

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### **CHAPTER 54**

## **Return Fee Entries**

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A Return Fee is a fee charged by an Originator (such as a merchant or biller) to a Receiver for a debit Entry or other item (such as a check) that was returned for insufficient or uncollected funds. Many merchants and billers assess a Return Fee to help recover costs associated with the collection of payments returned unpaid, including payments returned because of insufficient or uncollected funds.

Return Fees are often governed by state law. Most states and the District of Columbia explicitly allow for the collection of a Return Fee when a check or ACH debit is dishonored. Typically, the maximum amount of the return fee ranges from \$20 to \$50; it may also be calculated as a percentage of the face value of the check or ACH debit. Most states require notification to the check writer that a return fee will be assessed if the item is returned unpaid.

## **COLLECTION OF RETURN FEES VIA THE ACH NETWORK**

Originators may choose to collect Return Fees via the ACH Network through the initiation of a Return Fee Entry. A Return Fee Entry is defined as a Single-Entry debit to the Receiver's account for



the purpose of collecting a Return Fee.

An Originator may originate a Return Fee Entry, to the extent permitted by applicable legal requirements, in relation to the return of:

- (a) a debit Entry to a Consumer Account of a Receiver;
- (b) an ARC, BOC or POP Entry to a non-Consumer Account of a Receiver; or
- (c) an item that was eligible to be converted to a debit Entry, but was not converted to an Entry.

An Originator may initiate a Return Fee Entry based on the return of an ACH debit Entry identified above only if that Entry has been returned for insufficient or uncollected funds and contains the return reason code R01 or R09. For a Return Fee Entry based on the return of a Check, the returned Check must be marked to indicate that it was returned due to “Not Sufficient Funds,” “NSF,” “Uncollected Funds,” or comparable language.

## OBLIGATIONS OF ORIGINATORS

### ***Agreements with ODFIs***

An Originator must enter into a contractual agreement with the ODFI for the origination of ACH payments, in which the Originator agrees to be bound to the requirements of the *NACHA Operating Rules*. Originators should work with their ODFIs to determine what specific issues, if any, should be included within that agreement with respect to the origination of Return Fee Entries (e.g., formatting requirements, processing obligations, timing, etc.).

### ***Authorization Requirements for Return Fee Entries***

Originators must obtain the Receiver’s authorization prior to initiating a Return Fee Entry. This can be accomplished in either of two ways.

#### ***Authorization by Notice***

Originators may obtain authorization for a Return Fee Entry by providing the Receiver/check writer with notice that conforms to the requirements of Regulation E at the time that the underlying

ACH debit is authorized or the underlying check is accepted. Notice meeting the requirements of Regulation E satisfies the authorization requirements for a Return Fee Entry regardless of whether the account to be debited is a Consumer Account or a non-Consumer Account.

The notice must include the following, or substantially similar, language:

“If your payment is returned unpaid, you authorize us to make a one-time electronic fund transfer from your account to collect a fee of [\$ ];”

or

“If your payment is returned unpaid, you authorize us to make a one-time electronic fund transfer from your account to collect a fee. The fee will be determined [by/as follows]: [ ].”

A Return Fee Entry authorized by notice must be originated using the PPD Standard Entry Class Code. More detailed information on formatting Return Fee Entries is provided later within this chapter.

The following are examples of how Originators can obtain authorization for a Return Fee Entry via notice.

- A merchant accepts a check eligible for conversion from a customer but does not convert the check to ACH (i.e., the merchant processes the payment as a check). The merchant can obtain authorization for a Return Fee Entry by posting notice at the point-of-sale in conformance with Regulation E. If the check is returned for insufficient or uncollected funds, the merchant can originate a Return Fee Entry.
- A merchant accepts a check from a consumer and converts it to a BOC Entry. Authorization for the BOC Entry is obtained in conformance with Regulation E and the *Rules* by posting a conspicuous notice with clear and readily understandable terms, and then obtaining the customer’s signed check. The merchant can

obtain authorization for a Return Fee Entry by conforming to the Regulation E requirements in the same notice that served as authorization of the original BOC Entry. If the BOC Entry is returned for insufficient or uncollected funds, the merchant can originate a Return Fee Entry.

- A billing company obtains a written, signed authorization to enroll a customer in monthly Direct Payment, which is collected via a recurring PPD debit. The Originator can obtain authorization for a Return Fee Entry by providing notice in conformance with Regulation E in the authorization for recurring debits. If any PPD debit is returned for insufficient or uncollected funds, the billing company can originate a Return Fee Entry related to that specific PPD debit.

#### *Authorization Other Than by Notice*

Originators may also obtain authorization for a Return Fee Entry in any other form permitted by the *Rules* with respect to any SEC Code for a debit Entry to a Consumer Account (e.g., written authorization for PPD or WEB, oral authorization for TEL). A Return Fee Entry authorized in this manner must comply with the formatting requirements of the particular SEC Code used. More detailed information on formatting Return Fee Entries is provided later within this chapter.

Below are examples of how an Originator can obtain authorization for a Return Fee Entry in a manner other than by notice.

- A merchant accepts a check from a customer and does not convert the check to ACH (i.e., processes as a check). The check is returned for insufficient or uncollected funds. The merchant subsequently contacts the customer, who agrees to pay a Return Fee. The merchant's options for obtaining authorization include:
  1. In-person – the merchant directs the customer to return to the store or location, and obtains written authorization for an ACH debit for the Return Fee (SEC Code “PPD”);

2. Telephone – the merchant directs the customer to call into a customer service center, where the customer provides authorization for an ACH debit for the Return Fee (SEC Code “TEL”);

3. Web site – the merchant directs the customer to a corporate web site, where the customer authorizes an ACH debit for the Return Fee (SEC Code “WEB”).

- A billing company obtains a written, signed authorization to enroll a customer in monthly Direct Payment, which is collected via a recurring PPD debit. One of the PPD debits is returned for insufficient or uncollected funds. The biller subsequently contacts the customer, who agrees to pay a return fee. The customer goes to the billing company's web site and authorizes an ACH debit for the return fee (SEC Code “WEB”).

#### **Formatting Requirements**

##### *Standard Entry Class Code*

When notice is used as authorization, the Originator must format the Return Fee Entry as a PPD (Prearranged Payment and Deposit) Entry. When the Return Fee Entry is authorized in a manner other than by notice, the Originator must format the Return Fee Entry using the Standard Entry Class Code that corresponds to the manner in which authorization was obtained (i.e., PPD for written authorization, WEB for written authorization via the Internet or mobile device, TEL for oral authorization).

##### *Company Entry Description*

Originators must populate the Company/Entry Description field of each Return Fee Entry with the words “RETURN FEE” (all capitals) to enable Receivers to identify Return Fee Entries to their accounts. This descriptive statement applies to all Return Fee Entries, regardless of the manner in which authorization was obtained, the nature of the underlying transaction, or the SEC Code used in the Entry.

### *Company Name*

The Originator of a Return Fee Entry must identify itself in the Company Name field using the identical name that was used in the underlying ACH debit to which the Return Fee relates. If the underlying transaction for the Return Fee is a check, the Originator must identify itself with the name by which it is known to and readily recognized by the Receiver. This information is also provided to consumers on their periodic statements.

### *Individual Identification Number*

When a Return Fee Entry relates to an underlying ACH debit that carries a check serial number (ARC, BOC, POP and RCK), or relates to an underlying check transaction, the Originator must include the check serial number of the underlying transaction in the Individual Identification Number field of the Return Fee Entry. Although some financial institutions provide this information to consumers on their periodic statements, the *NACHA Operating Rules* do not require them to do so. However, the information in this field is available to RDFIs for purposes of customer service research, enabling them to assist their customers in further recognizing the Return Fee Entry and relate it to a specific underlying transaction.

### ***Limitations on the Origination of Return Fees and Return Fee Entries***

#### *Number of Return Fee Entries Permitted*

An Originator may impose only one Return Fee in relation to an underlying transaction that has been returned because of insufficient or uncollected funds, regardless of whether the fee is collected via the ACH Network or otherwise, and regardless of the number of times the underlying transaction is returned. For example, a single underlying ACH debit can be returned for insufficient funds as many as three times, but the Originator is permitted to collect only one Return Fee for that entry.

#### *Timing of Return Fee Origination*

A Return Fee Entry that is authorized by notice must have a Settlement Date that is no later than 45 days after the Settlement Date of the ACH Return Entry or the receipt of the return of the underlying check transaction.

### *Return Fees on Return Fees*

An Originator is prohibited from initiating a Return Fee Entry in relation to an underlying ACH debit that is itself a Return Fee Entry (that is, no return fee on a return fee).

### ***Return of Return Fee Entries***

Return Fee Entries are governed by the same return reasons and Return Reason Codes as other ACH debit entries. A complete listing of Return Reason Codes can be found within Appendix Four of the *NACHA Operating Rules*.

Most Return Fee Entry returns will be made available to the Originator's ODFI by the opening of business on the second banking day following the Settlement Date of the Return Fee Entry. However, when a Receiver has claimed that a Return Fee Entry to his account was not authorized, the Originator must be aware that its ODFI may receive the return of the Return Fee Entry for an extended period of time. In these cases, ODFIs, on behalf of their Originators, may receive Return Fee Entries as late as the opening of business on the banking day following the 60th calendar day following the Settlement Date of the entry. For these extended returns, an RDFI is required to have obtained a Written Statement of Unauthorized Debit from its Receiver. The Originator may request a copy of the Receiver's written statement regarding the unauthorized entry. Originators should work with their ODFIs to establish procedures to request such information from the RDFI when appropriate.

### ***Re-initiation of Return Fee Entries***

A Return Fee Entry that is itself returned because of insufficient or uncollected funds may be re-initiated up to two times following the return of the original Return Fee Entry, provided that such re-initiations are transmitted by the Originator (or its ODFI on the Originator's behalf) within 180 days of the Settlement Date of the original Return Fee Entry.

CHAPTER 55

## Healthcare EFT Regulations and the ACH Network

This chapter provides information on recent Federal healthcare regulations, the adoption of a healthcare electronic funds transfer (EFT) standard, and the adoption of healthcare industry operating rules for EFT and electronic remittance advices (ERA). The chapter also describes the impacts of this healthcare legislation on financial institutions and outlines efforts undertaken by NACHA in support of the healthcare industry. For detailed information on the Healthcare EFT & ERA Operating Rules, please refer to the Council on Affordable Quality Healthcare (CAQH)'s Committee on Operating Rules for Information Exchange (CORE) at [http://www.caqh.org/CORE\\_phase3.php](http://www.caqh.org/CORE_phase3.php)

### BACKGROUND – LEGISLATION AND HEALTHCARE INDUSTRY RULES

Since 1996, three major pieces of healthcare legislation have been passed that address administrative simplification within the healthcare industry via the adoption of standard transactions between health plans and healthcare providers. These laws are the:

- Health Insurance Portability and Accountability Act of 1996 (HIPAA)
- American Recovery and Reinvestment Act (ARRA) – 2009, which contained the Health Information Technology for Economic and Clinical Health Act (HITECH)
- Patient Protection and Affordable Care Act (ACA) of 2010

This chapter focuses on the new regulations and mandates included in the ACA and their impact on the financial services industry.

### PATIENT PROTECTION AND AFFORDABLE CARE ACT

On March 23, 2010, the Patient Protection and Affordable Care Act (ACA) became law. Section 1104, Administrative Simplification, of the Affordable Care Act requires the Department of Health and Human Services (HHS) to adopt a standard for healthcare EFT transactions, as well as industry-vetted operating rules regarding the use of the transactions. On January 10, 2012, HHS issued an Interim Final Rule with Comment (“January IFC”) on Administrative Simplification: Adoption of Standards for Health Care Electronic Funds Transfers (EFTs) and Remittance Advice.<sup>9</sup> The January IFC: 1) adopted the NACHA Corporate Credit or Debit with Addenda Record (CCD+) as the standard for healthcare EFT; 2) adopted the ASC X12 835 TRN Segment (“reassociation number”) as the standard for the data content of the Addenda Record of the CCD; and 3) discussed NACHA’s role in the development and maintenance of the CCD+ through the *NACHA Operating Rules*.<sup>10</sup> The IFC became a final rule on July 10, 2012 and clarified that if a healthcare provider requests that a health plan use the standard EFT transaction (the CCD+), the health plan is required to do so. The compliance date for all covered entities is January 1, 2014.

#### *The Healthcare EFT Standard*

In the January IFC, HHS divided the ACH transaction flow into three chronological stages, each of which includes a separate electronic transmission of information:

- *Stage 1 – Payment Initiation* – a health plan’s order, instruction, or authorization to its financial institution to make a healthcare claim payment using an electronic funds transfer (EFT) through the ACH Network.
- *Stage 2 – Transfer of Funds* – the transfer and settlement of funds from one account to another account.

<sup>9</sup><http://www.gpo.gov/fdsys/pkg/FR-2012-01-10/pdf/2012-132.pdf>

<sup>10</sup>HHS finalized the rule on July 10, 2012 with no changes.

- *Stage 3 – Deposit Notification* – transmission of information from the Receiving Depository Financial Institution (RDFI) to the Receiver that the payment has been deposited to the Receiver's account.

The January IFC adopted NACHA's Corporate Credit or Debit Entry (CCD Entry) with Addenda Record, as defined within Appendix Three of the 2011 *NACHA Operating Rules*<sup>11</sup>, as the healthcare EFT standard for Stage 1 (Payment Initiation).<sup>12</sup>

The January IFC also adopted the X12 835 TR3 TRN Segment as the standard for the data content for the addenda record of the CCD Entry and requires health plans to populate the CCD Entry's addenda record with this data segment. Section 2.4 (Segment Detail, TRN Reassociation Trace Number) of the January IFC includes specifications for the addenda content. The TRN Segment includes, consecutively, the Trace Type Code (TRN01), the Reference Identification (TRN02), the Originating Company Identifier (TRN03), and if appropriate, the Reference Identification (TRN04).

The January IFC did not adopt standards for Stages 2 (Transfer of Funds) and 3 (Deposit Notification) of the healthcare EFT.

Figure 55-1 on the following page illustrates the three stages of the ACH transaction flow as identified by HHS.

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<sup>11</sup> From CMS FAQs, "While the implementation specifications in the 2011 NACHA Operating Rules & Guidelines are the adopted standard for the CCD+Addenda, any version of the NACHA Operating Rules & Guidelines can be used as long as the implementation specifications for the CCD+Addenda do not differ from those in the 2011 version."

<sup>12</sup> Note: HHS adopted only the chapter and appendices of the NACHA Operating Rules that include implementation specifications for the CCD+Addenda rather than all rules governing CCD entries.



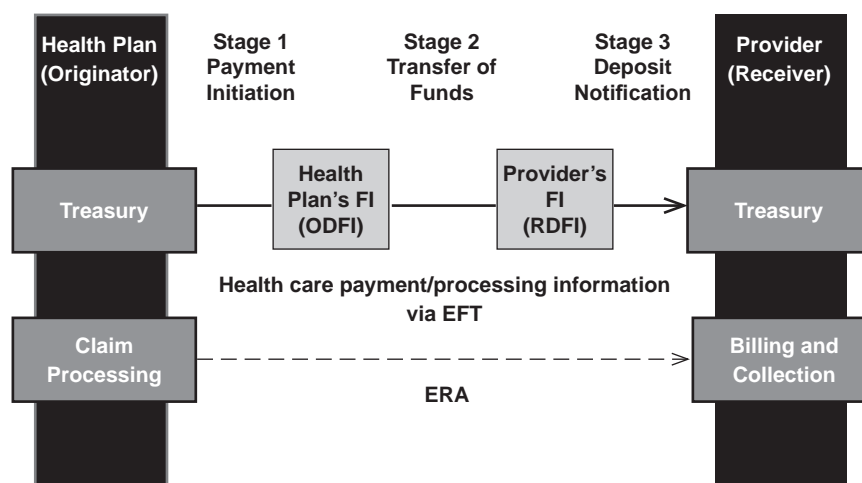


FIGURE 55-1 STAGES OF HEALTHCARE EFT

### Adoption of Healthcare Operating Rules

On August 20, 2012, HHS issued another IFC (“August IFC”) on *Administrative Simplification: Adoption of Operating Rules for Health Care Electronic Funds Transfers (EFT) and Remittance Advice Transactions*<sup>13</sup>. The August IFC adopted the CAQH CORE Phase III CORE EFT & ERA Operating Rule Set as the industry-vetted operating rules for EFT and ERA. The CORE rule set includes the following:

- Phase III CORE EFT Enrollment Data Rule;
- Phase III CORE ERA Enrollment Data Rule;
- Phase III CORE Uniform Use of CARCs and RARCs<sup>14</sup> Rule, including CORE-required Code Combinations for CORE-defined Business Scenarios;

- Phase III CORE EFT & ERA Reassociation (CCD+/835) Rule; and
- Phase III CORE Health Care Claim Payment/Advice Infrastructure Rule

Of the five CORE Operating Rules adopted, the EFT & ERA Reassociation Rule will have the most direct impact on financial institutions for the reasons below.

- It requires health plans to proactively inform healthcare providers during EFT enrollment that the healthcare provider will need to contact its financial institution to arrange for the delivery of the CORE-required Minimum CCD+ Data Elements. It also states that the “healthcare

<sup>13</sup><http://www.gpo.gov/fdsys/pkg/FR-2012-08-10/pdf/2012-19557.pdf>

<sup>14</sup>CARCs – Claims Adjustment Reason Codes; RARCs – Remittance Advice Remark Codes



provider must proactively contact its financial institution to arrange for the delivery of the CORE-required Minimum CCD+ Data Elements.”

- It identifies the Core-required Minimum CCD+ Data Elements as three fields in the ACH CCD record that are used for reassociation of the ACH Entry and the Electronic Remittance Advice (ERA): 1) the Effective Entry Date field (CCD Record 5, Field 9); 2) the Amount field (CCD Record 6, Field 6); and 3) the Payment Related Information field (CCD Record 7, Field 3).

Due to the CORE EFT & ERA Reassociation Rule, financial institutions that have healthcare providers as customers can expect an increase in requests to receive this information for reassociation. The August IFC estimates that there are 708,842 healthcare providers in the U.S. It further estimates that the current usage of EFT by the healthcare industry of 33 percent for all healthcare claim payments will rise to 84 percent by 2023.<sup>15</sup> The combination of the percentage increase across a large number of entities would result in a significantly larger number of healthcare EFT payments received by RDFIs, for which reassociation information will be contained within the ACH record.

### **Medicare Mandate**

The final rule also mandates the use of EFT for the reimbursement of all Medicare claims reimbursement, effective January 1, 2014.

### **International Healthcare Payments**

The Final Rule recognizes that the healthcare EFT standard CCD+ Addenda record cannot be used for payments made to or from countries outside the United States and that all international transactions must utilize the NACHA IAT format.

## **IMPACT OF HEALTHCARE LEGISLATION ON FINANCIAL INSTITUTIONS**

The impact of healthcare legislation on financial institutions varies, depending on the products and services they provide to the healthcare industry and what, if any, Protected Health Information

(PHI) they receive and process on behalf of their customers. The healthcare EFT standard does not carry PHI in the addenda record. It is mandated to carry only the TRN Reassociation Trace Number, which does not contain PHI. As a result, RDFIs that only receive and process the CCD+Addenda for their healthcare customers are not subject to HIPAA Privacy and Security regulations.

The Medicare EFT mandate, the identification of the CCD+ as the healthcare EFT standard, and the development and implementation of the EFT & ERA Reassociation Trace Number operating rules will impact all financial institutions that service healthcare providers and health plans.

To meet the ACA goals for Administrative Simplification, more health plans will require EFT claims reimbursement payments for healthcare providers that accept their medical insurance coverage, and a larger portion of the 2.5 billion health claims paid<sup>16</sup> annually will move to EFT. For financial institutions, this shift has the potential to impact not only the ACH department — with additional volumes and mandatory delivery of the remittance information — but also the lockbox and check processing departments as volumes move from check to ACH, as well as the cash management or treasury management areas as healthcare providers and health plans request additional services.

This should be viewed as an opportunity for financial institutions to improve and strengthen their relationships with their healthcare customers through education and product or service outreach rather than a regulatory requirement. Healthcare providers are sometimes unaware of products and services that financial institutions can provide to help them automate and improve their back-office processing. Repackaging existing products (e.g., equipment and facilities loans, Direct Payment via ACH for the collection of patient outstanding debt, ACH Debit Blocks and Filters, etc.) that focus on proactive outreach and education to healthcare customers can strengthen customer relationships and demonstrate financial institutions’ willingness to help their healthcare customers meet new healthcare legislation requirements.

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<sup>15</sup><http://www.gpo.gov/fdsys/pkg/FR-2012-08-10/pdf/2012-19557.pdf>  
Table 6, EFT and ERA Usage between 2013 and 2023

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<sup>16</sup>McKinsey Quarterly. *Overhauling the US health care payment system*, June 2007, page 8.

### ***Delivery of Payment Related Information***

Healthcare customers' increased demand for the delivery of the data contained in the Payment Related Information Field of the CCD+ Addenda Record will impact all financial institutions. The payment related information for the healthcare CCD+ will contain the TRN Reassociation Trace Number created by the health plan. This number allows the healthcare provider to tie the CCD+ payment to the correct ERA, which is currently received through another channel. The ERA contains information on the paid claim, along with any adjustments to the claims adjudication process.

Readers should note that, among ACH participants, the Payment Related Information is commonly referred to as the "remittance information." For a CCD that is a Health Care EFT, the Payment Related Information will always contain the "reassociation number" (i.e., the ASC X12 835 TRN Segment), and not detailed remittance information that contains Protected Health Information. Readers should not confuse the common ACH usage of "remittance information" with the terms "remittance advice" or "electronic remittance advice (ERA)" as used in the health care industry to mean the detailed explanation of benefits.

### ***TRN Reassociation Trace Number***

The TRN Reassociation Trace Number is the key piece of information that the healthcare provider must have to tie the EFT payment to the ERA and to update the patient payment records. The identification of information contained in the Payment Related Information field of the Addenda record as part of the CORE-required Minimum CCD+ Reassociation Data Elements will impact financial institutions. During the EFT enrollment process, health plans will be required to instruct healthcare providers to request the delivery of the "CORE-required Minimum CCD+ Reassociation Data Elements" from their financial institutions. The CORE EFT & ERA Reassociation Rule will also require healthcare providers to ask their financial institutions for the "CORE-required Minimum CCD+ Reassociation Data Elements."

For financial institutions, this means that any healthcare provider customers not currently receiving the payment related information from the CCD+ transactions will be requesting the CORE-required Minimum CCD+ Reassociation Data Elements from customer-facing staff (e.g., branch staff, customer service staff, cash management staff, etc.). Financial institutions will need to recognize requests for CORE-required Minimum CCD+ Reassociation Data Elements and either direct healthcare providers to appropriate staff to setup the information delivery service, or setup the service for them.

The delivery of the contents of the Payment Related Information Field is required by the NACHA Operating Rules once requested by the Receiver; after such a request it is not an optional service. All financial institutions must be able to deliver the information contained in the Payment Payment Related Information field of the CCD+ Addenda Record to the healthcare providers (or any Receiver) if it is requested. The *NACHA Operating Rules* do not define how the information must be delivered; rather, the delivery method to be utilized is determined between the financial institution and the healthcare provider. Financial institutions may offer a variety of methods to deliver the remittance data (e.g., fax, print and mail, email, Internet, or direct send) depending on their capabilities and customer demand.

While not addressed within the *NACHA Operating Rules*, NACHA recommends, as a best practice, that RDFIs require a healthcare provider to enroll only once in order to receive all of their CCD+ remittance information, applying the provider's request to the receipt of all future CCD+ entries.

## COMPARING THE ACH TRACE NUMBER AND THE TRN REASSOCIATION TRACE NUMBER

Trace Number used by healthcare providers to tie the EFT payment to the ERA.

Figure 55-2 identifies the differences between the ACH Trace Number and the TRN Reassociation

FIGURE 55-2

	ACH TRACE NUMBER	ASC X12 835 TRN REASSOCIATION TRACE NUMBER
<b>CREATOR</b>	<ul style="list-style-type: none"> <li>• ODFI</li> </ul>	<ul style="list-style-type: none"> <li>• Health Plan/Payer</li> </ul>
<b>SOURCE</b>	<ul style="list-style-type: none"> <li>• NACHA CCD+ Field 11 of Entry Detail Record</li> <li>• The ACH Trace number is assigned by the ODFI as specified in the <i>NACHA Operating Rules</i></li> </ul>	<ul style="list-style-type: none"> <li>• HIPAA-adopted ASC X12N 005010X221 835, Table 1 TRN Reassociation Trace Number Segment (<i>see Note 1 below</i>) TRN02-127 Trace Number</li> <li>• ASC X12 TRN Reassociation Trace number is placed in the Payment Related Information field of the CCD+ Addenda Record (<i>this number is assigned by the payer</i>)</li> </ul>
<b>PRIMARY FUNCTION</b>	<ul style="list-style-type: none"> <li>• Uniquely identifies each Entry within a batch in an ACH input File</li> </ul>	<ul style="list-style-type: none"> <li>• Uniquely identifies the transaction set and aids in reassociating payments and remittance advices that have been separated.</li> <li>• Source: HIPAA-adopted ASC X12N 005010X221 835</li> </ul>
<b>DELIVERY TO HEALTHCARE PROVIDER</b>	<ul style="list-style-type: none"> <li>• Flows unchanged from the ODFI to the RDFI through the ACH Network</li> </ul>	<ul style="list-style-type: none"> <li>• ASC X12 TRN Reassociation Trace Number is placed in the CCD+ Addenda Record Payment Related Information field; flows through the ACH Network unchanged</li> <li>• Flows unchanged from the payer to the ODFI, through the ACH Network to the RDFI and ultimately to the healthcare provider</li> </ul>

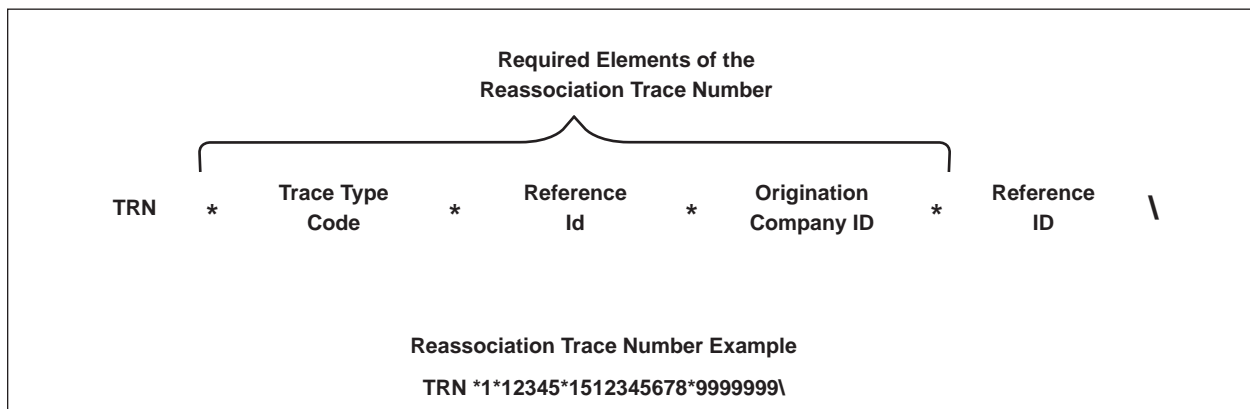
	ACH TRACE NUMBER	ASC X12 835 TRN REASSOCIATION TRACE NUMBER
<b>ISSUES</b>	<ul style="list-style-type: none"> <li>The ACH Trace Number is not used to reassociate the EFT and ERA; it is used primarily for customer service and transaction research, and to aid in identifying returned transactions</li> <li>If a health plan creates an ACH Trace Number, it will be modified or overwritten by the ODFI to conform with <i>NACHA Operating Rules</i>' requirements and the ODFI's numbering system</li> </ul>	<ul style="list-style-type: none"> <li>When the CCD Entry does not include the Addenda Record containing the Payment Related Information field, the CCD cannot carry the ASC X12 TRN Reassociation Trace Number</li> <li>The <i>NACHA Operating Rules</i> require the RDFI to provide the ASCX12 TRN Reassociation Trace Number in the CCD+ Payment Related Information field to the healthcare provider by opening of business on the 2nd banking day after Settlement Date – if it has been requested by the healthcare provider</li> <li>The <i>NACHA Operating Rules</i> do not specify how this information is provided – healthcare providers should contact their banks to arrange for the method and timing of delivery.</li> </ul>
<b>STANDARDS DEVELOPMENT ORGANIZATION</b>	<ul style="list-style-type: none"> <li>NACHA</li> </ul>	<ul style="list-style-type: none"> <li>ASC X12</li> </ul>
<b>EXPLANATORY NOTE 1</b>		<ul style="list-style-type: none"> <li>TRN Reassociation Trace Number <i>Segment (composed of 4 data elements)</i> is sometimes referred to as: <ul style="list-style-type: none"> <li>– TRN 02 Reference ID Segment</li> <li>– X12 TRN Segment</li> <li>– Reassociation segment</li> <li>– ERA TRN Trace Segment</li> <li>– TRN segment</li> </ul> </li> </ul>
<b>EXPLANATORY NOTE 2</b>		<ul style="list-style-type: none"> <li>The trace number in the TRN Reassociation Trace Number <i>Segment described in Note 1 (TRN02-127 Trace Number)</i> is sometimes referred to as: <ul style="list-style-type: none"> <li>– EFT Reference Number</li> <li>– The Trace Number</li> </ul> </li> </ul>
<b>EXPLANATORY NOTE 3</b>	The ACH Trace Number and the X12 TRN Reassociation Trace Number are NOT the same number.	

## TRN REASSOCIATION TRACE NUMBER TECHNICAL SPECIFICATIONS

The TRN Reassociation Trace Number is an EDI data segment that health plans include in both the remittance advice (ERA) and the ACH CCD+ Addenda Record. The EDI data segment contains both mandatory and optional Data Elements. The data segment is designed to be a machine-readable series of data elements that contains numbers and asterisks (delimiters), followed by a back slash or a tilde (terminator). The TRN Reassociation Trace Number in the CCD+ must be an exact match to the TRN Reassociation Trace Number in the ERA and should be delivered to the healthcare provider exactly as received by the financial institution. No translation is necessary unless specifically requested by the healthcare provider.

The following diagram provides information on the specific data elements that make up the TRN Reassociation Trace Number as identified in the ASC X12N/ Version 5010 TR3 Technical Report. The first three elements (Trace Type Code, the Reference Identification, and the Origination Company ID) are required; the last usage of the Reference Identification is conditional and is not a required data element. Financial institutions may receive a Reassociation Trace Number with or without the last element (the 9999999 in Figure 55-3).

FIGURE 55-3 REQUIRED ELEMENTS OF THE REASSOCIATION TRACE NUMBER



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## SECTION VII

# Appendices

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### APPENDIX A

### History of the ACH System

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The financial industry recognized the imperative need to improve the nation's payments system in the late 1960s. Special task forces began to develop a workable alternative to paper checks before the volume became overwhelming. A direct result of the early groundwork was the establishment of the first automated clearing house (ACH) for the exchange of paperless entries, the Calwestern Automated Clearing House Association (CACHA), in 1972. At the same time, several other clearing house associations set up Special Committees on Paperless Entries (SCOPE) to implement similar automated facilities. In most areas, agreements were made between the local ACH associations and the Federal Reserve Bank serving the area to provide the facilities, equipment, and staff to operate an automated clearing house.

As the number of ACH associations increased, some elected to contract with the regional Federal Reserve Bank or a private organization to operate ACH processing facilities. Those ACH associations that elected to operate their own facilities settled transactions through the local Federal Reserve Bank. In 1974, the National Automated Clearing House Association (NACHA) was formed to coordinate the ACH movement nationwide. By 1978, there were multiple ACH associations covering the entire continental United States, operating under the standards established by NACHA. Alaska, Hawaii, Guam, and Puerto Rico are also served by ACH associations.

For the most part, an ACH Operator processed entries on a local basis, serving the depository financial institutions in its geographic area of responsibility. However, in early 1977, as a result

of joint efforts by NACHA and the Federal Reserve System, a project was implemented linking ten local ACH Operators into an interregional exchange pilot project, with a goal of establishing a nationwide ACH Network if the pilot project proved a viable means of transferring funds. By the end of 1977, the pilot had demonstrated that the ACH would prove a workable means of transmitting certain types of electronic payments throughout the country. The next logical step was the expansion of the program to provide for a coast-to-coast ACH Network. Arrangements were made between NACHA and the Federal Reserve System to implement an interregional exchange system by the end of 1978. The ACH Network allowed a financial institution in one geographic region to originate and/or receive entries from an ACH Operator in another geographic region. Processing arrangements and agreements had to be in place prior to the handling of entries in this manner.

Significant changes have occurred since the initial development of the system. In 1979, format revisions to support Customer Initiated Entries (CIE) and Machine Transfer Entries (MTE) were introduced to support new services. In 1981, an Extended Processing Cycle, which permits a next-day settlement with a later cutoff for Originators, was implemented to provide for more rapid collection of funds for corporate consolidation. This cycle was initially restricted to debits and delayed ACH files but was later expanded to support electronic return entries. Restrictions were later removed so any transaction could be processed in that cycle.

In 1982, NACHA sponsored a study in which corporations defined their needs for the movement of both funds and other data. As a result, the *NACHA Operating Rules* were modified to support corporate transfers. These modifications permitted multiple addenda records to be used with each funds transfer entry, thus enabling the Originator to supply accounting and other information concerning the transaction to the Receiver.

The Corporate Trade Payment (CTP) format was developed to permit the transmission of remittance information to the Receiver using a fixed field format. During the same time frame in which CTP was introduced, the American National



Standards Institute's (ANSI) Accredited Standards Committee (ASC) X12 was working to develop electronic data interchange standards for common business transactions and other transactions between corporate buyers and sellers. All ANSI ASC X12 messages, including the X12.4 Payment Order/Remittance Advice, use a variable length message with a broad data dictionary. Because the CTP format and X12.4 Payment Order/Remittance Advice format were not compatible, NACHA and ANSI committees met in 1985 to resolve these discrepancies. The ANSI ASC X12.4 Payment Order/Remittance Advice was modified and additional fields were added to communicate information concerning the transfer of funds when transmitting through several payment mechanisms. These new fields permitted an Originating Depository Financial Institution (ODFI) to convert the ASC X12.4 Payment Order/Remittance Advice to the CTP format.

A new ACH transaction, called the Corporate Trade Exchange (CTX), was developed so the X12.4 data could accompany the funds transfer without reformatting. The CTX format incorporated the strengths of both the NACHA fixed record format and the variable length record format of ASC X12. The traditional 94-character fixed format was used in the Company/Batch Records so the funds transfer could be executed with the ACH software already in place. A revised addenda record was developed that continued the support of the 94-character standard. However, 80 characters of each addenda record were made available for payment related information. This innovation meant that the ANSI ASC X12.4 Payment Order/Remittance Advice could be transmitted via the ACH delivery mechanism by using these payment-related fields; the funds transfer could be effected; and the payment-related data could be delivered to the receiving corporation in the X12.4 format. With this approach, the funds transfer, accounting, and payment related information remain together. As a result of the versatility of the CTX format, the CTP format was eliminated in September 1996.

Point-of-Sale specifications, effective in 1985 and amended in 1988, allow the ACH to be used as a delivery mechanism for debit card transactions.

As NACHA moved through the 1990s, the use of ANSI ASC X12 standards for electronic data interchange (EDI) became more popular among corporations. This increased popularity encouraged greater use of both the CCD and CTX formats. Both ODFIs and RDFIs began to offer a variety of services to corporations for the processing of remittance data, on both the originating and receiving sides of the ACH transaction.

In 1992, a new application, the Death Notification Entry (DNE), was adopted to support the efforts of the U.S. Department of the Treasury to allow a government agency (e.g., Social Security Administration) to notify a financial institution that the recipient of a government benefit payment has died. Also new in 1992, the Destroyed Check Entry (XCK) application established the means for a financial institution to utilize the ACH Network to facilitate the clearing of certain checks when those checks have been inadvertently destroyed in the check clearing process.

In 1996, the Automated Enrollment Entry (ENR) was developed as an optional alternative to the paper enrollment methods used by many Federal Government Agencies, enabling the ACH Network to be utilized by depository financial institutions to transmit consumer ACH credit enrollment information on behalf of their customers to Federal Government Agencies. In 1998, the Automated Enrollment process was expanded to allow enrollments for both future ACH credit and ACH debit transactions to be transmitted to Federal Government Agencies by DFIs on behalf of both consumers and businesses.

In 1997, the ACH Network was expanded to permit the transmission of Acknowledgment Entries (ACK/ATX) by RDFIs, at their option, to indicate that corporate credit entries (CCD or CTX entries) have been received by the RDFI and that the RDFI will attempt to post the payments to the Receivers' accounts.

In 1998, the ACH Network began to accommodate re-presented check entries, which allow for the truncation and electronic collection of checks that are returned due to insufficient or uncollected funds. In September 2000, a new Standard Entry

Class Code, RCK, was implemented for this application.

In 1999, the ACH Network was further expanded to test the acceptance of two additional ACH debit applications designed to facilitate the electronic conversion/truncation of consumer check payments made either in-person at the point-of-purchase (point of purchase entries) or delivered to the Originator via the U.S. mail or at a dropbox location (accounts receivable entries). These debit applications, which required a consumer to provide the merchant with a check from which the consumer's bank routing and account information would be drawn, provided Originators with an alternative to presenting the consumer's check through the check clearing system. Short-term rules defining the legal framework and allowing testing for this type of check conversion/truncation activity were established using the PPD format.

In 2000, distinct rules and Standard Entry Class Codes (CBR for Corporate Cross-Border Payment and PBR for Consumer Cross-Border Payment) were implemented to facilitate the transmission of payments internationally. Also in 2000, a new SEC Code, POP (Point of Purchase Entries), was implemented, establishing the legal framework and unique technical specifications to support the conversion of checks presented at the point of purchase and replacing the short-term rules for this application.

During 2001, two new Standard Entry Class Codes, WEB (Internet-Initiated Entries) and TEL (Telephone-Initiated Entries), became effective. These SEC Codes facilitate access to the ACH Network by providing Originators with additional options (i.e., the Internet and the telephone) for obtaining a Receiver's authorization for ACH debit entries while, at the same time, heightening security requirements for ACH entries authorized via alternative media that bear a potentially greater risk profile.

In 2002, a new Standard Entry Class Code, ARC (Accounts Receivable Entries), was introduced and established a legal framework for the conversion of consumer checks received by Originators via the U.S. mail or at a dropbox location into ACH debit entries to consumers' accounts.

In 2006, the rules governing the ARC and POP applications were further modified to enable Originators to more readily identify business checks that are ineligible for conversion to electronic check transactions and exclude them from their ACH processing. Specifically, checks or sharedrafts bearing an Auxiliary On-Us Field within the MICR line, and those checks or sharedrafts in an amount greater than \$25,000, became ineligible for conversion to ARC and POP entries.

In 2007, a new Standard Entry Class Code, BOC (Back Office Conversion Entries), was implemented, establishing the legal framework and technical specifications to enable retailers and other merchants to accept checks for payment at the point of purchase and convert those checks to ACH debit entries during back office processing.

In 2009, a new Standard Entry Class Code, IAT (International ACH Transaction), was adopted to provide a more robust rules framework for the exchange of international payments via the ACH Network, replacing the earlier CBR and PBR applications. The *Rules* governing IAT entries require clear identification of all international payment transactions transmitted via the ACH Network and mandate the inclusion of specific information defined within the Bank Secrecy Act's "Travel Rule" so that all parties to the transaction have the information necessary to comply with U.S. law, which includes the programs administered by the Office of Foreign Assets Control (OFAC).

In response to the rapid growth and use of mobile phones to access the Internet, the Internet-Initiated Entry (WEB) was enhanced in 2010 to include this communication channel. WEB is now defined as an Internet-Initiated/Mobile Entry, and adds debit entries that are authorized or initiated over the Internet using a mobile device to the WEB description.

Although the ACH Network has always provided a channel for Originators to collect Return Fees electronically, the *NACHA Operating Rules* did not always distinguish an ACH debit for the purpose of collecting a Return Fee from any other ACH debit, nor were there explicit rules related to the origination of entries for such purposes. An Originator was required to have obtained the

Receiver's explicit authorization in order to collect the fee via the ACH Network, with the general requirement that the authorization be signed or similarly authenticated by the Receiver. The manner in which authorization was obtained depended upon the application used for the collection of the fee. A written authorization was required for a PPD (or WEB if via the Internet); a return fee collected by a TEL Entry would require a separate call and compliance with the TEL rules.

By contrast, in a 2006 amendment to Regulation E, the Federal Reserve Board clarified its position allowing businesses to collect return fees via an electronic funds transfer. To do so, a business must provide notice to the customer that a one-time return item fee will be collected electronically from the customer's account if an underlying transaction is returned unpaid. As a result of this revision to Regulation E, the *Rules* became more restrictive than the regulation.

These differing requirements created challenges for some businesses, particularly with respect to checks, check conversion (ARC and BOC) and check truncation transactions (RCK), where the written authorization requirements for Return Fees presented a burden to both merchants/billers and customers alike. In order to use the ACH Network to collect a return fee, an Originator would need to first obtain written authorizations and signatures in advance from all of its customers, when, on average, only one percent of transactions are returned unpaid. This represented a significant customer service and trust issue, as well as a logistical problem, for Originators. Similarly, obtaining authorization for a fee after the customer's original payment has been returned unpaid was challenging. As a result of this requirement of the *Rules*, Originators and potential Originators of ACH transactions often used other payment methods, such as Remotely Created Checks, to collect return fees.

To the extent that an Originator could use the ACH Network to collect Return Fees, the *Rules* did not require that these transactions be specifically identified to the Receiver in any particular manner, nor was there a means to relate the Return Fee to the underlying transaction that was returned unpaid. This presented challenges to a Receiver in terms of

being able to identify a particular transaction as a Return Fee and in reconciling his account, leading to customer service inquiries for RDFIs. In 2010, these issues were addressed through rule changes specifically requiring authorization and transaction identification requirements for ACH debits used to collect Return Fees.

The chart in Appendix B of these *Guidelines* gives a brief overview of the Standard Entry Class Codes currently used in the ACH Network, and a reference for more information.

APPENDIX B

**Standard Entry Class Codes**

STANDARD ENTRY CLASS CODES						
STANDARD ENTRY CLASS (SEC) CODE	TITLE	TRANSACTION TYPE	ACCOUNT TYPE	AGREEMENT OR AUTHORIZATION	YEAR IMPLEMENTED	REFERENCES IN GUIDELINES
<b>ACK</b>	ACH Payment Acknowledged	Non-Monetary (Acknowledgeds CCD Credit Entry)	N/A	N/A	1997	Section V - Standard Entry Class Codes Chapter 36 - Acknowledgement Entries
<b>ADV</b>	Automated Accounting Advice	Non-Monetary	N/A	Agreement — ODFI/RDFI and ACH Operator		Section I - General Information Chapter 1 - Overview of the System
<b>ARC</b>	Accounts Receivable Entry	Debit Single Entry	Consumer or Non-Consumer	Written Notice = Authorization	2002	Section V - Standard Entry Class Codes Chapter 37 - Accounts Receivable Entries
<b>ATX</b>	Financial EDI Acknowledgement	Non-Monetary (Acknowledgeds CTX Credit Entry)	N/A	N/A	1997	Section V - Standard Entry Class Codes Chapter 36 - Acknowledgement Entries
<b>BOC</b>	Back Office Conversion Entry	Debit Single Entry	Consumer or Non-Consumer	Posted Notice and Written Notice = Authorization	2007	Section V - Standard Entry Class Codes Chapter 38 - Back Office Conversion Entries
<b>CCD</b>	Corporate Credit or Debit Entry	Credit or Debit Single Entry or Recurring Entry	Non-Consumer	Agreement — Originator and Receiver	1983	Section V - Standard Entry Class Codes Chapter 39 - Corporate Credit or Debit/Corporate Trade Exchange Entries
<b>CIE</b>	Customer Initiated Entry	Credit Single Entry	Consumer Originated	Agreement — Originator and Receiver	1979	Section V - Standard Entry Class Codes Chapter 40 - Customer Initiated Entries
<b>COR</b>	Notification of Change or Refused Notification of Change	Non-Monetary	Consumer or Non-Consumer	N/A	1980	ODFIs - Section II, Part One Chapter 11 Originators - Section II, Part Two Chapter 19 RDFIs - Section II, Part Three Chapter 28
<b>CTX</b>	Corporate Trade Exchange	Credit or Debit Single Entry or Recurring Entry	Non-Consumer	Agreement — Originator and Receiver	1985	Section V - Standard Entry Class Codes Chapter 39 - Corporate Credit or Debit/Corporate Trade Exchange Entries

STANDARD ENTRY CLASS CODES						
STANDARD ENTRY CLASS (SEC) CODE	TITLE	TRANSACTION TYPE	ACCOUNT TYPE	AGREEMENT OR AUTHORIZATION	YEAR IMPLEMENTED	REFERENCES IN GUIDELINES
DNE (Federal Government Agency use only.)	Death Notification Entry	Non-Monetary	Consumer	N/A	1992	Section V - Standard Entry Class Codes Chapter 41 - Death Notification Entries
ENR	Automated Enrollment Entry	Non-Monetary	Non-Consumer (Federal Government Agency)	Request by Receiver / RDFI use only	1996	Section V - Standard Entry Class Codes Chapter 42 - Automated Enrollment Entries
IAT	International ACH Transaction	Credit or Debit Single Entry or Recurring Entry	Consumer or Non-Consumer	Consumer Debit — in writing and signed or similarly authenticated = authorization	2009	Section V - Standard Entry Class Codes Chapter 43 - International ACH Transaction Entries
				Consumer Credit — orally or other non-written means = authorization		
				Corporate — Agreement between Originator and Receiver.		
MTE	Machine Transfer Entry	Credit or Debit Single Entry	Consumer	In writing and signed or similarly authenticated = authorization	1979	Section I - General Information Chapter 1 - Overview of the System
POP	Point-of-Purchase Entry	Debit Single Entry	Consumer or Non-Consumer	Posted Notice and in writing and signed or similarly authenticated	2000	Section V - Standard Entry Class Codes Chapter 44 - Point-of-Purchase Entries
POS	Point-of-Sale Entry	Debit Single Entry	Consumer	In writing and signed or similarly authenticated	1985	Section I - General Information Chapter 1 - Overview of the System
PPD	Prearranged Payment and Deposit	Credit or Debit Single Entry or Recurring Entry	Consumer	Consumer Debit — in writing and signed or similarly authenticated.  Consumer Credit — orally or other non-written means.	1975	Section V - Standard Entry Class Codes Chapter 45 - Prearranged Payment and Deposit Entries

STANDARD ENTRY CLASS CODES						
STANDARD ENTRY CLASS (SEC) CODE	TITLE	TRANSACTION TYPE	ACCOUNT TYPE	AGREEMENT OR AUTHORIZATION	YEAR IMPLEMENTED	REFERENCES IN GUIDELINES
RCK	Re-presented Check Entry	Debit Single Entry	Consumer	Posted Notice = authorization	2000	Section V - Standard Entry Class Codes Chapter 46 - Re-presented Check Entries
SHR	Shared Network Transaction	Debit Single Entry	Consumer	Agreement — ODFI and RDFI		Section I - General Information Chapter 1 - Overview of the System
TEL	Telephone-Initiated Entry	Debit Single Entry or Recurring Entry	Consumer	Orally authorized over telephone = authorization	2001	Section V - Standard Entry Class Codes Chapter 47 - Telephone-Initiated Entries
TRC	Truncated Entry	Debit Single Entry	Consumer or Non-Consumer	Agreement — ODFI and RDFI		Section I - General Information Chapter 1 - Overview of the System
TRX	Truncated Entries Exchange	Debit Single Entry	Consumer or Non-Consumer	Agreement — ODFI and RDFI		Section I - General Information Chapter 1 - Overview of the System
WEB	Internet-Initiated/Mobile Entry	Debit Single Entry or Recurring Entry	Consumer	In writing and signed or similarly authenticated = authorization	2001 (Revised to add Mobile 2010)	Section V - Standard Entry Class Codes Chapter 48 - Internet-Initiated/Mobile Entries
XCK	Destroyed Check Entry	Debit	Consumer or Non-Consumer	N/A	1992	Section V - Standard Entry Class Codes Chapter 49 - Destroyed Check Entries



## APPENDIX C

## Issues To Be Addressed in the Agreement Between the ODFI and the Originator or Third-Party Sender

CONSUMER		CORPORATE		ISSUES THAT SHOULD BE DEFINED IN ORIGINATION AGREEMENT BETWEEN ODFI AND ORIGINATOR OR THIRD-PARTY SENDER
DR.	CR.	DR.	CR.	
X	X	X	X	The nature, format and medium of Entries, or Entry information to be furnished by the Originator.
X	X	X	X	The place and time the Entries or Entry information is to be furnished by the Originator.
X	X	X	X	The Originator's obligation to obtain valid authorization of Entries from Receivers.
X	X	X	X	The level of security to be established for delivering the payment data from the Originator to the ODFI, such as transmittals with authorized signatures, the method used to verify authenticity of telecommunicated data, etc.
X	X	X	X	Other data security and data breach provisions.
X	X	X	X	Responsibilities of the participating ODFI and Originator with respect to remaking Rejected Entries or Files.
X	X	X	X	The deadline for Reversals, corrections, or changes by the Originator of Entries or Entry information furnished to the ODFI.
X	X	X	X	The ODFI's responsibility for delay by the ACH Operator or RDFI in processing any credit or debit the DFI Transmits to the ACH Operator, or failure to process or credit or debit any such Entry or other acts of omission of a third party.
X	X	X	X	Whether the Origination Agreement covers credit or debit Entries or both.
X	X	X	X	Any restrictions on the types of ACH Entries that may be originated.
X		X		The time when the funds may be available to the Originator.
	X		X	The time when funds are to be provided to the ODFI by the Originator.
X	X	X	X	The charges or fees by the ODFI for providing services to the Originator under the Origination Agreement.
X	X	X	X	Exposure limits for the Originator.
X	X	X	X	Responsibilities of the ODFI and Originator with respect to handling Returns, Notifications of Change, dishonored Returns, and refused Notifications of Change.
X	X	X	X	The conditions under which a Third-Party Service Provider will be utilized.
X	X	X	X	Procedures for terminating the Origination Agreement and time frames under which the processing of Entries under that Origination Agreement will cease.
X	X	X	X	The right of the ODFI to terminate or suspend an agreement for breach of the <i>Rules</i> .
X	X	X	X	The Originator's obligation regarding Prenotifications, if Prenotification process is used.

CONSUMER		CORPORATE		ISSUES THAT SHOULD BE DEFINED IN ORIGATION AGREEMENT BETWEEN ODFI AND ORIGINATOR OR THIRD-PARTY SENDER
DR.	CR.	DR.	CR.	
X				The Originator's obligation to obtain, retain, and provide copies of authorizations, particularly with regard to consumer authorizations under Regulation E.
X				The Originator's obligation with respect to consumer alleged errors, including under Regulation E.
X	X	X	X	The right of, and procedures for, the ODFI to audit an Originator for compliance with the Origination Agreement and the <i>Rules</i> .
X	X	X	X	Record retention requirements.
X	X	X	X	Use of proper authorization methods, authorization forms, and ACH formats.
X	X	X	X	The use of appropriate encryption standards for ACH Entries involving banking information that is Transmitted or exchanged via an Unsecured Electronic Network.
			X	Responsibilities of the ODFI and Originator with respect to handling Acknowledgment Entries, if such transactions are desired by the Originator.
X	X	X	X	An acknowledgment by the Originator that ACH transactions it originates comply with the provisions of U.S. law.
X	X	X	X	The Originator's responsibility for matters warranted or agreed by the ODFI in the <i>Rules</i> pertaining to Entries exchanged through the ACH Network, which may vary depending on the Entry Type.
X	X	X	X	For International ACH Transactions, (IAT entries), <ul style="list-style-type: none"> <li>• The terms and conditions for the allocation of gains, losses and the assumption of risk for foreign exchange conversion.</li> <li>• The rights and responsibilities of the ODFI in the event of an Erroneous Entry.</li> </ul>

APPENDIX D

**Document Retention Schedule**

DOCUMENT RETENTION SCHEDULE					
	ACH OPERATOR	ORIGINATOR	PARTICIPATING DFI	COPY PROVISIONS	RULES REFERENCE
<b>Record of Entries Received or Transmitted</b>	One Year from Date of Entry		Six Years from Date of Entry	Operator or DFI - provide copy of information relating to Entry if requested by DFI or other ACH Operator.	Operator - Article Four, Section 4.5 DFI - Article One, Subsection 1.4.1 & 1.4.2
<b>Authorizations</b>		Two Years from Termination or Revocation of Authorization		Originator - provide copy to ODFI in order for the ODFI to provide to the requesting RDFI within ten Banking Days of request.	Article Two, Subsection 2.3.2.5
<b>Eligible Source Document for ARC &amp; BOC</b>		Two Years from Settlement Date of Entry (front only)		Originator - provide copy of front of source document to ODFI in order for the ODFI to provide to the requesting RDFI within ten Banking Days of request made within two years of Entry.	Article Two, Subsection 2.5.1.5 (ARC) Article Two, Subsection 2.5.2.5 (BOC)
<b>Eligible Item to Which RCK Entry Relates</b>		Seven Years from Settlement Date of Entry (front & back of related item)		Originator - provide copy of the related item to ODFI in order for the ODFI to provide to the requesting RDFI within ten Banking Days of request.	Article Two, Subsection 2.5.13.5
<b>Copy or Image of Item to Which XCK Entry Relates</b>			Six Years from Date of Entry	ODFI - provide copy of the related item to the requesting RDFI within thirty days of written request made within six years of initiation date of the XCK Entry.	Article Two, Subsection 2.5.18.4
<b>Written Statement of Unauthorized Debit</b>			One Year from Settlement Date of Related Extended Return Entry	RDFI - provide copy within ten Banking Days of request by ODFI if made within one year of Entry date.	Article Three, Subsection 3.12.5

APPENDIX E

Source Document Eligibility Charts

ELIGIBLE SOURCE DOCUMENT, PRESENTMENT, AND AUTHORIZATION REQUIREMENTS FOR ARC, BOC, POP, AND RCK ENTRIES							
	Source Document Must Contain A Pre-Printed Check Serial Number	Source Document Must Be In An Amount Of \$25,000 Or Less	Source Document Must Be Completed And Signed By Receiver	Source Document Must Have A Routing Number, Account Number, And Check Serial Number Encoded In Magnetic Ink	Source Document (Check) Presentment	Authorization Requirements	Notes
ARC	✓	✓	✓	✓	Eligible Source Document via U.S. mail or dropbox. As of March 16, 2012, also via a delivery service or in person for payment of a bill at a manned location.	Notice to Receiver	Originator must use a reading device to capture the MICR line from the check.
BOC	✓	✓	✓	✓	Eligible Source Document at point-of-purchase or manned bill payment location for conversion during back-office processing	Notice to Receiver and copy of notice or similar language to Receiver at time of transaction	Originator must use a reading device to capture the MICR line from the check.
POP	✓	✓	Originator must use a reading device to capture the MICR line from the blank check	✓	Eligible Source Document at point-of-purchase or manned bill payment location	Notice to Receiver and copy of notice or similar language to Receiver at time of transaction and a written authorization from the Receiver	Source document is voided and returned to the Receiver.  Source document has not been used for a prior POP entry.
RCK	✓	Must be in an amount less than \$2,500	✓	✓	An RCK is used to collect the amount of a check that has been returned NSF or uncollected funds	Notice to the Receiver of the terms for initiating an RCK entry prior to receiving the source document to which the RCK relates	Check is dated 180 days or less from the date of the RCK entry.  Consumer accounts only.  2 times as a check, 1 time as RCK or 1 time as a check and 2 times as RCK.

INELIGIBLE SOURCE DOCUMENTS FOR ARC, BOC, POP, AND RCK ENTRIES									
	Check Contains Auxillary On-Us Field In The Micr Line	Check Payable To Person Other Than Originator	Draft That Does Not Contain Signature Of Receiver	Check That Accesses Credit Card Account, Home Equity Line, Or Other Form Of Credit	Check Drawn On An Investment Company (As Defined In The Investment Company Act Of 1940)	Check That Is An Obligation Of A Financial Institution (e.g. Official Check, Cashier's Check, Travelers Check, Money Order)	Check Drawn On The Treasury Of The United States, A Federal Reserve Bank, Or A Federal Home Loan Bank	Check Drawn On A State Or Local Government That Is Not Payable Through Or At A Participating DFI	Check Payable In A Medium Other Than United States Currency
ARC	x	x	x	x	x	x	x	x	x
BOC	x	x	x	x	x	x	x	x	x
POP	x	x	Check is not required to contain signature, but cannot be a paper draft	x	x	x	x	x	x
RCK	x	x	x	x	x	x	x	x	x

APPENDIX F

## Sample Authorization for Direct Deposit and Split Deposit via ACH (ACH Credit)

### CONSUMER AUTHORIZATION FOR DIRECT DEPOSIT VIA ACH (ACH CREDITS)

*Direct Deposit via ACH is the deposit of funds to a consumer's account for payroll, employee expense reimbursement, government benefits, tax and other refunds, and annuities and interest payments.*

**Check all that apply:** ☐ Begin Deposit ☐ Change Information ☐ Split Among Multiple Accounts  
I have provided information for each of my accounts below.

I (we) hereby authorize \_\_\_\_\_ [Company Name] ("COMPANY") to electronically credit my (our) account (and, if necessary, to electronically debit my (our) account to correct erroneous credits<sup>1</sup>) I (we) agree that ACH transactions I (we) authorize comply with all applicable law.

**Account #1**

☐ Checking Account/☐ Savings Account (select one) at the depository financial institution ("DEPOSITORY") named below.

Depository Name \_\_\_\_\_  
Routing Number \_\_\_\_\_ Account Number \_\_\_\_\_  
Name(s) on the Account \_\_\_\_\_  
Amount of credit (i.e., flat amount or percentage) \_\_\_\_\_  
Date(s) and/or frequency of credit(s) \_\_\_\_\_

**Account #2**

☐ Checking Account/☐ Savings Account (select one) at the depository financial institution ("DEPOSITORY") named below.

Depository Name \_\_\_\_\_  
Routing Number \_\_\_\_\_ Account Number \_\_\_\_\_  
Name(s) on the Account \_\_\_\_\_  
Amount of credit (i.e., flat amount or percentage) \_\_\_\_\_  
Date(s) and/or frequency of credit(s) \_\_\_\_\_

**Account #3**

☐ Checking Account/☐ Savings Account (select one) at the depository financial institution ("DEPOSITORY") named below.

Depository Name \_\_\_\_\_  
Routing Number \_\_\_\_\_ Account Number \_\_\_\_\_  
Name(s) on the Account \_\_\_\_\_  
Amount of credit (i.e., flat amount or percentage) \_\_\_\_\_  
Date(s) and/or frequency of credit(s) \_\_\_\_\_

I (we) understand that this authorization will remain in full force and effect until I (we) notify COMPANY [insert manner of revocation, i.e., in writing, by phone, location, address, etc.] that I (we) wish to revoke this authorization. I (we) understand that COMPANY requires at least [X days/weeks] prior notice in order to cancel this authorization.<sup>2</sup>

Name(s) \_\_\_\_\_  
(Please Print)

Date \_\_\_\_\_ Signature(s) \_\_\_\_\_

<sup>1</sup>The NACHA Operating Rules do not require the consumer's express authorization to initiate Reversing Entries to correct erroneous transactions. However, Originators should consider obtaining express authorization of debits or credits to correct errors.

<sup>2</sup>Written credit authorizations must provide that the Receiver may revoke the authorization only by notifying the Originator in the time and manner stated in the authorization. The reference to notification should be filled with a statement of the time and manner that notification must be given in order to provide company a reasonable opportunity to act on it (e.g., "In writing by mail to 100 Main Street, Anytown, NY that is received at least three (3) days prior to the proposed effective date of the termination of authorization").



APPENDIX G

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**Sample Authorization for Direct Payment via ACH (ACH Debit)**

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**CONSUMER AUTHORIZATION FOR DIRECT PAYMENT VIA ACH  
(ACH DEBITS)**

*Direct Payment via ACH is the transfer of funds from a consumer account for the purpose of making a payment.*

I (we) authorize \_\_\_\_\_ [Company Name] (“COMPANY”) to electronically debit my (our) account (and, if necessary, electronically credit my (our) account to correct erroneous debits<sup>1</sup>) as follows:

☐ Checking Account/ ☐ Savings Account (select one) at the depository financial institution named below (“DEPOSITORY”). I (we) agree that ACH transactions I (we) authorize comply with all applicable law.

Depository Name \_\_\_\_\_

Routing Number \_\_\_\_\_ Account Number \_\_\_\_\_

Amount of debit(s) or method of determining amount of debit(s) [or specify range of acceptable dollar amounts authorized]: \_\_\_\_\_.

Date(s) and/or frequency of debit(s): \_\_\_\_\_.

I (we) understand that this authorization will remain in full force and effect until I (we) notify COMPANY [insert manner of revocation, i.e., in writing, by phone, location, address, etc.] that I (we) wish to revoke this authorization. I (we) understand that COMPANY requires at least [X days/weeks] prior notice in order to cancel this authorization.<sup>2</sup>

Name(s) \_\_\_\_\_  
(Please Print)

Date \_\_\_\_\_ Signature(s) \_\_\_\_\_

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<sup>1</sup>The NACHA Operating Rules do not require the consumer's express authorization to initiate Reversing Entries to correct erroneous transactions. However, Originators should consider obtaining express authorization of debits or credits to correct errors.

<sup>2</sup>Written debit authorizations must provide that the Receiver may revoke the authorization only by notifying the Originator in the time and manner stated in the authorization. The reference to notification should be filled with a statement of the time and manner that notification must be given in order to provide company a reasonable opportunity to act on it (e.g., “In writing by mail to 100 Main Street, Anytown, NY that is received at least three (3) days prior to the proposed effective date of the termination of authorization”).

APPENDIX H

## Guidelines for Consumer Authentication

### GUIDELINES FOR CONSUMER AUTHENTICATION

*[All SEC code references are for consumer debit transactions]*

	INTERNET/ONLINE NETWORK	TELEPHONE <sup>1</sup>	
	Minimum Acceptable Authentication	Who Initiates Call?	Minimum Acceptable Authentication
<b>RECURRING</b>			
Existing Relationship <sup>2</sup>	<p>Similarly authenticate using a method compliant with E-Sign<sup>4</sup> and that evidences the consumer's (Receiver's) identity and assent to the authorization</p> <p>Example: Consumer enters a digital signature, PIN, password or shared secret to authorize the Entry.<sup>3</sup></p> <p>SEC Code: WEB</p>	Consumer (Receiver) or Company (Originator)	<p>Option 1 (Confirmation of a previously-provided written authorization document): Similarly authenticate written terms of authorization previously delivered to a consumer (Receiver) using a method that evidences the consumer's identity and assent to the authorization</p> <p>Example: Written terms of the authorization have previously been delivered to the consumer in explanation of telephone payment option. Consumer (Receiver) authenticates agreement to the terms of authorization by key-entering into a VRU or speaking into a recorded line a PIN that identifies the consumer.</p> <p>SEC Code: PPD</p> <p>Option 2 (Fully telephone-based authorization with written confirmation): Originator must use commercially reasonable procedures to authenticate the Receiver. The terms of the authorization and the consumer's (Receiver's) consent are provided orally, but to satisfy Regulation E must be recorded and a confirming copy must be provided to the Receiver in writing.</p> <p>Example: Consumer (Receiver) calls telephone bill payment line to pay an existing invoice. The customer service representative confirms the consumer's identity by verifying certain account details, offers the consumer the opportunity to have invoices automatically debited each month and reads to the consumer the terms of the authorization. The consumer affirmatively states his/her authorization and provides his/her account details for payment. The line is recorded, and the Originator sends a copy of the authorization to the consumer prior to the Settlement Date of the Entry.</p> <p>SEC Code: TEL</p>

SECTION VII – Appendices  
APPENDIX H GUIDELINES FOR CONSUMER AUTHENTICATION

	INTERNET/ONLINE NETWORK	TELEPHONE <sup>1</sup>	
	Minimum Acceptable Authentication	Who Initiates Call?	Minimum Acceptable Authentication
No Relationship	<p>Similarly authenticate using a method compliant with E-Sign<sup>4</sup> and that evidences the consumer's (Receiver's) identity and assent to the authorization</p> <p>Example: Originator verifies identity in a commercially reasonable manner using an identity database.<sup>3</sup></p> <p>SEC Code: WEB</p>	Consumer (Receiver)	<p>Option 1 (Confirmation of a previously-provided written authorization document): Similarly authenticate written terms of authorization previously delivered to a consumer (Receiver) using a method that evidences the consumer's identity and assent to the authorization</p> <p>Example: Terms of the authorization are delivered to the consumer in a catalog mailed on an unsolicited basis. Consumer (Receiver) authenticates agreement to the terms of authorization by key-entering into a VRU or speaking into a recorded line a PIN printed in the catalog.</p> <p>SEC Code: PPD</p> <p>Option 2 (Fully telephone-based authorization with written confirmation): Originator must use commercially reasonable procedures to authenticate the Receiver. The terms of the authorization and the consumer's (Receiver's) consent are provided orally, but to satisfy Regulation E must be recorded and a confirming copy must be provided to the Receiver in writing.</p> <p>Example: Consumer (Receiver) calls to order a monthly billed magazine in response to an unsolicited mailing. The customer service representative confirms the consumer's identity, offers the consumer the opportunity to be automatically debited for the monthly subscription fee and reads to the consumer the terms of the authorization. The consumer affirmatively states his/her authorization and provides his/her account details for payment. The line is recorded, and the Originator sends a copy of the authorization to the consumer prior to the Settlement Date of the Entry.</p> <p>SEC Code: TEL</p>
		Company (Originator)	<p>Similarly authenticate written terms of authorization previously delivered to a consumer (Receiver) using a method that evidences the consumer's identity and assent to the authorization</p> <p>Example: Terms of the authorization are delivered to the consumer in a catalog mailed on an unsolicited basis. Consumer (Receiver) authenticates agreement to the terms of authorization by key-entering into a VRU or speaking into a recorded line a PIN printed in the catalog with the authorization language.<sup>5</sup></p> <p>SEC Code: PPD</p>

	INTERNET/ONLINE NETWORK	TELEPHONE <sup>1</sup>	
	Minimum Acceptable Authentication	Who Initiates Call?	Minimum Acceptable Authentication
<b>NON-RECURRING</b>			
Existing Relationship <sup>2</sup>	<p>Similarly authenticate using a method compliant with E-Sign<sup>4</sup> and that evidences the consumer's (Receiver's) identity and assent to the authorization</p> <p>Example: use of a digital signature, PIN, password or shared secret<sup>3</sup></p> <p>SEC Code: WEB</p>	Consumer (Receiver) or Company (Originator)	<p>Option 1 (Confirmation of a previously-provided written authorization document): Similarly authenticate written terms of authorization previously delivered to a consumer (Receiver) using a method that evidences the consumer's identity and assent to the authorization</p> <p>Example: Terms of the authorization are delivered to the consumer in a catalog mailed on an unsolicited basis. Consumer (Receiver) authenticates agreement to the terms of authorization by key-entering into a VRU or speaking into a recorded line a PIN printed in the catalog.</p> <p>SEC Code: PPD</p> <p>Option 2 (Fully telephone-based authorization with written confirmation): Originator must use commercially reasonable procedures to authenticate the Receiver; the terms of the authorization and the consumer's (Receiver's) consent are provided orally, but must be recorded or a confirming copy must be provided to the Receiver in writing.</p> <p>Example: Consumer (Receiver) calls telephone bill payment line to pay an existing invoice. The customer service representative confirms the consumer's identity by verifying certain account details and reads to the consumer the terms of the authorization. The consumer affirmatively states his/her authorization and provides his/her account details for payment. The line is recorded, or the Originator sends a copy of the authorization to the consumer prior to the Settlement Date of the Entry.</p> <p>SEC Code: TEL</p>

	INTERNET/ONLINE NETWORK	TELEPHONE <sup>1</sup>	
	Minimum Acceptable Authentication	Who Initiates Call?	Minimum Acceptable Authentication
No Relationship	<p>Similarly authenticate using a method compliant with E-Sign<sup>4</sup> and that evidences the consumer's (Receiver's) identity and assent to the authorization</p> <p>Example: Originator verifies identity in a commercially reasonable manner using an identity database.<sup>3</sup></p> <p>SEC Code: WEB</p>	Consumer (Receiver)	<p>Option 1 (Confirmation of a previously-provided written authorization document): Similarly authenticate written terms of authorization previously delivered to a consumer (Receiver) using a method that evidences the consumer's identity and assent to the authorization</p> <p>Example: Terms of the authorization are delivered to the consumer in a catalog mailed on an unsolicited basis. Consumer (Receiver) authenticates agreement to the terms of authorization by key-entering into a VRU or speaking into a recorded line a PIN printed in the catalog.</p> <p>SEC Code: PPD</p> <p>Option 2 (Fully telephone-based authorization with written confirmation): Originator must use commercially reasonable procedures to authenticate the Receiver; the authorization must be recorded or a confirming copy must be provided to the Receiver in writing.</p> <p>Example: Consumer (Receiver) calls a telephone order line in response to an advertisement. The customer service representative confirms the consumer's identity by verifying certain personal information and reads to the consumer the terms of the authorization. The consumer affirmatively states his/her authorization and provides his/her account details for payment. The line is recorded, or the Originator sends a copy of the authorization to the consumer prior to the Settlement Date of the Entry.</p> <p>SEC Code: TEL</p>
		Company (Originator)	<p>Similarly authenticate written terms of authorization previously delivered to a consumer (Receiver) using a method that evidences the consumer's identity and assent to the authorization.</p> <p>Example: Terms of the authorization are delivered to the consumer in a catalog mailed on an unsolicited basis. Consumer (Receiver) authenticates agreement to the terms of authorization by key-entering into a VRU or speaking into a recorded line a PIN printed in the catalog.<sup>5</sup></p> <p>SEC Code: PPD</p>

<sup>1</sup> The Originator must retain a record of any authentication code provided by the consumer. If the consumer verbally expresses the authentication code, the consumer's statement of the code must be recorded. Consider the following best practices when using the telephone to similarly authenticate: Code should be a minimum of four digits; if there is no existing relationship between the Originator and Receiver, the code should be printed on the written authorization form that is in the consumer's possession when this telephone conversation occurs in order to demonstrate the consumer's possession of the authorization language. Please note that many telephone authorizations are also subject to the Federal Trade Commission's Telemarketing Sales Rule, 16 C.F.R. Part 310.

<sup>2</sup> There is an Existing Relationship when there is a written agreement in place between the Originator and the consumer, or when the consumer has purchased goods or services from the Originator in the past two years.

<sup>3</sup> Must be encrypted with a minimum of 128-bit RC4 encryption technology or equivalent technology.

<sup>4</sup> The Electronic Signatures in Global and National Commerce Act (15 U.S.C. 7001 et seq).

<sup>5</sup> Outbound calls by an Originator to a consumer where there is no prior relationship pose heightened risks for obtaining a properly authenticated, bona fide authorization. Originators in such circumstances should pay particular attention to compliance with the Telemarketing Sales Rule and should take steps to ensure that their authorization language is clear, conspicuous and readily understood by the Receiver, and that their means of authentication unambiguously indicates the Receiver's assent to the transaction. The TEL code cannot be used in this situation.

## APPENDIX J

**Basic ASC X12 Rules**

The *NACHA Operating Rules* support a number of payment formats that may be accompanied by addenda records utilizing payment related ANSI ASC X12 transaction sets or data segments: PPD, CCD, CIE, and CTX. The standards for these transaction sets (currently, 103 Abandoned Property Filings [known as the 103 Transaction Set]; 521 Income or Asset Offset [known as the 521 Transaction Set]; 813 Electronic Filing of Tax Return [known as the 813 Transaction Set]; 820 Payment Order/Remittance Advice [known as the 820 Transaction Set]; 823 Lockbox [known as the 823 Transaction Set]; and 835 Health Care Claim Payment/Advice [known as the 835 Transaction Set]) were developed by the Accredited Standards Committee X12, a standards development committee formally chartered by the American National Standards Institute (ANSI). The ASC X12 Committee consists of corporations, financial institutions, trade associations, government agencies, and other organizations interested in the development and increased use of Electronic Data Interchange (EDI), the exchange of business transaction information in machine readable format.

**X12 TRANSACTION STRUCTURE**

Figure J-1 illustrates the structure of an ASC X12 transaction. Of principal interest is the transaction set envelope of the message, which carries the detailed data segments of the payment-related ANSI ASC X12 transaction set (i.e., 103 Abandoned Property Filing, 521 Income or Asset Offset, 813 Electronic Filing of Tax Return Data, 820 Payment Order/Remittance Advice, 823 Lockbox, or 835 Health Care Claim Payment/Advice). The transaction set envelope consists of three areas:

- the header area;
- the detail area; and
- the summary area.

Each of the three areas of the payment-related transaction set consists of data segments, which may be mandatory or optional. Data segments are made up of smaller components called data elements, which may be mandatory, optional, or relational. Data elements are fixed or variable in length. Minimum and maximum values are provided for variable-length elements.

**Note:** The diagram in Figure J-1 illustrates the structure of an X12 message containing multiple Functional Envelopes within the Interchange Envelope and multiple like-Transaction Sets within a Functional Envelope. Although ASC X12 allows this structure, the *NACHA Operating Rules* allow only one such envelope per CTX entry. (This limitation applies to the ISA/IEA, GS/GE and ST/SE segments.)



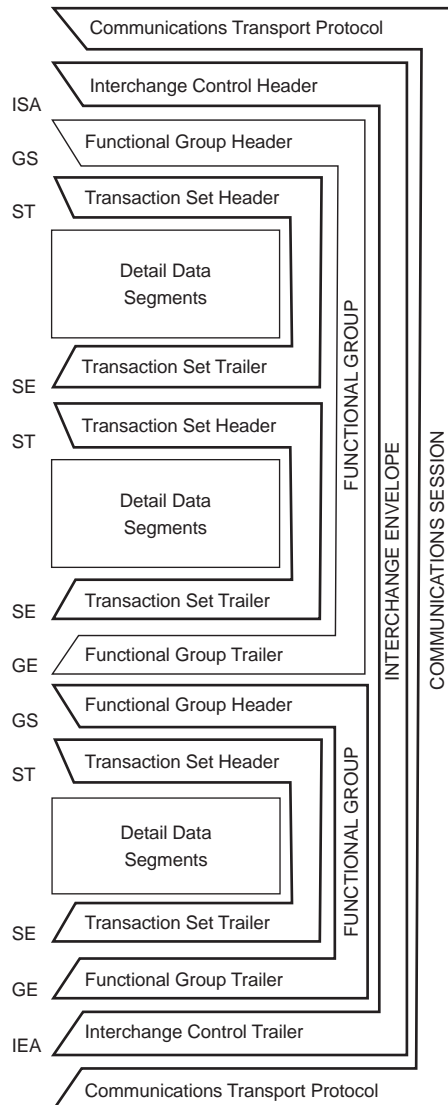


FIGURE J-1

## ANSI ASC X12 ENVELOPING STRUCTURES

The X12 message consists of three envelopes outside of the detailed data segments.

- **ISA/IEA**

The outermost envelope is an “Interchange Control” Envelope which consists of an Interchange Control Header (ISA) and an Interchange Control Trailer (IEA). The ISA/IEA Interchange Segments are used to identify the Originator and the receiver of a physical transmission (point-to-point). The structure

of this envelope is defined by the ASC X12 Interchange Control Structures.

- **GS/GE**

Within the ISA/IEA envelope is a “Functional Group” Envelope with a Functional Group Header (GS) and a Functional Group Trailer (GE). The identifications used in the GS/GE envelope are different from those in the ISA/IEA in that they identify the point of application at both the originating and receiving companies. The structure of this envelope is defined by the ASC X12 Application Control Structure. Collectively, the headers and trailers of these two segments allow data to be segregated logically for easy interpretation by the receiver.

- **ST/SE (ANSI ASC X12 transaction sets containing a BPR or BPS data segment [i.e., 103, 521, 813, 820, 823, or 835 Transaction Sets], and payment related UN/EDIFACT Standards)**

The innermost envelope is the “transaction set,” which begins with the Transaction Set Header (ST) and ends with the Transaction Set Trailer (SE). The transaction set structure is defined by an ANSI ASC X12 transaction set containing a BPR or BPS data segment (i.e., 103 Transaction Set, 521 Transaction Set, 813 Transaction Set, 820 Transaction Set, 823 Transaction Set, or 835 Transaction Set), or payment related UN/EDIFACT syntax. The 820 Transaction Set, the 835 Transaction Set, and the 813 Transaction Set contain detailed data segments that are used to define purchase order and remittance advice information, explanation of benefits (EOB) remittance advice information, and electronic tax filing remittance information, respectively. The 521 Transaction Set is used for income or asset offsets, and the 823 Transaction Set accommodates lockbox processing. The 103 Transaction Set is used for abandoned property filings.

(Note: With CTX entries, each of the three envelopes may only be used once. Although ASC X12 does allow multiple Functional Envelopes within the Interchange Envelope and multiple like-Transaction Sets within a Functional Envelope, the *NACHA Operating Rules* allow only one such

envelope per CTX entry. This limitation applies to the ISA/IEA, GS/GE and ST/SE envelopes.)

## X12 DATA SEGMENT REQUIREMENT

Data segments within the Interchange Control Structures, the Application Control Structure, and the ANSI ASC X12 transactions sets containing a BPR or BPS data segment (the 103 Transaction Set, the 521 Transaction Set, the 813 Transaction Set, the 820 Transaction Set, the 823 Transaction Set, or the 835 Transaction Set) will have one of the following two designators which define their requirement:

1. Mandatory (M) – This data segment must be present in the transaction set.
2. Optional (O) – The appearance of this segment in the transaction set is either at the option of the sending party or is based on the mutual agreement of the interchange parties.

## DATA ELEMENT REQUIREMENT

Data elements within a particular data segment will have one of the following three types of designators which define their requirement within that segment:

1. Mandatory (M) – The data element must be present in the segment (presence means a data element must not be empty).
2. Optional (O) – This element may or may not be used, depending on the requirements of the Originator. Optional fields not used will be flagged by an “\*”.
3. Relational (X) – Relational conditions may exist among two or more data elements within the same data segment based on the presence or absence of one of those elements.

## DATA ELEMENT TYPES

Data element types are described as follows:

### ***DT – Date***

A date data element is used to express the ISO standard date in YYMMDD format in which YY is the year in the century (00 to 99), MM is the month

(01 to 12), and DD is the day in the month (01 to 31).

### ***R – Decimal Number***

A decimal data element contains an explicit decimal point and is used for numeric values that have a varying number of decimal positions. The decimal point always appears in the character stream if the decimal point is at any place other than the right end. If the value is an integer (decimal point at the right end), the decimal point should be omitted. For negative values, the leading minus sign (-) is used. Absence of a sign indicates a positive value. The plus sign (+) should not be transmitted. Leading zeros should be suppressed unless necessary to satisfy a minimum length requirement. Trailing zeros following the decimal point should be suppressed unless necessary to indicate precision. The use of triad separators (for example, the commas in 1,000,000) is expressly prohibited. The length of a decimal type data element does not include the optional leading sign or decimal point.

The following is an example of a \$100.00 positive integer value in the BPR data segment for the “Monetary Amount” data element (variable length of one to fifteen characters):

\*100\*

The next example illustrates a \$100.02 fractional value in the same data segment and data element:

\*100.02\*

### ***ID – Identifier***

An identifier data element always contains a value from a predefined list of values that is maintained by the X12 Committee or some other body recognized by the X12 Committee. Trailing spaces should be suppressed unless necessary to satisfy minimum length.

### ***Nn – Numeric***

A numeric data element is represented by one or more digits with an optional leading sign representing a value in the normal base 10. The value of a numeric data element includes an implied decimal point. It is used when the position of

the decimal point within the data is permanently fixed and is not to be transmitted with the data. The data element dictionary defines the number of implied decimal positions. The representation for this data element type is Nn where N indicates that it is numeric and n indicates the number of decimal positions to the right of the fixed implied decimal point. For negative values, the leading minus sign (-) is used. Absence of a sign indicates a positive value. The plus sign (+) should not be transmitted. Leading zeros should be suppressed unless necessary to satisfy a minimum length requirement. The length of a numeric type data element does not include the optional sign.

### **AN – String**

A string data element is a sequence of any characters. The characters shall be left justified and shall be space filled. Leading spaces, when they occur, are presumed to be significant characters. Trailing spaces should be suppressed unless they are necessary to satisfy minimum length.

### **TM – Time**

A time data element is used to express the ISO standard time in HHMMSSd.d format in which HH is the hour for a 24 hour clock (00 to 23), MM is the minutes (00 to 59), SS is the seconds (00 to 59), and d.d is decimal seconds.

After the Originator has provided all of the elements needed in a segment, the segment can be terminated. For example, the following is a remittance segment relating to an invoice, number 022. The total amount of the invoice is \$2,000.00.

RMR\*IV\*022\*\*2000.00\

The following is the actual RMR Segment to which the example can be compared:

RMR\*Reference Number Qualifier\*Reference  
Number\*Payment Action Code\*Monetary  
Amount\*Total Invoice Credit/Debit  
Amount\*Discount Amount Taken\

*Note:* The addition of the second asterisk showing the omission of the Payment Action Code element (482) demonstrates an optional field not used. Rather than indicating the omission of the elements

following the Monetary Amount (782), or \$2,000, the segment is terminated using a backslash.

One use of CTX is for the RDFI to send the receiving corporation pure X12 information that has been stripped from the CTX addenda records. This requires less time and effort than reformatting the information into another industry standard. To retrieve the pure X12 message from the CTX transaction, the RDFI will need to:

- insert the Settlement Date in the DTM segment (translating the Julian date in the ACH batch header to a YYMMDD format);
- detach the addenda from the entry detail record; and
- strip away the ACH addenda record type code, the addenda type code, addenda sequence number, and the entry detail sequence number.

Addenda record that accompany a CCD or PPD entry may carry up to 80 characters of information formatted in a valid ANSI ASC X12 data segment. The segments most widely used with the CCD and PPD addenda records will be the REF, RMR, NTE, and DTM data segments or NACHA endorsed banking conventions.

As an example, the NTE data segment permits free form information or data for comment or special instruction. An NTE segment for a late payment could appear as follows:

NTE past due payment/

*Note:* For CCD payments, the following payment related ANSI ASC X12 data segments (i.e., from the ASC X12 103 Transaction Set, 521 Transaction Set, 813 Transaction Set, 820 Transaction Set, 823 Transaction Set, or 835 Transaction Set) will *not* be used in the addenda record:

ST (Transaction Set Header)

BPR (Beginning Segment Payment Order/  
Remittance Advice)

CUR (Currency)

SE (Transaction Set Trailer)

Figure J-2 explains the components of a segment and an element.

## SEGMENT DIAGRAM KEY

Figure J-2 illustrates how a data segment provides references to codes and terms used in the ASC X12 standards. (Note that the actual interchange of information does not include all the reference characters shown in the diagram. Only the data segment identifier characters, the values for each data element, the data element separator, and the data segment terminator characters are actually transmitted.)

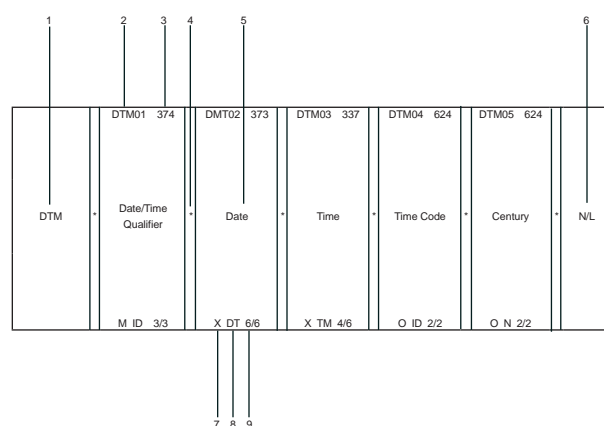


FIGURE J-2

1. **Segment Identifier** – A unique combination of two or three letters or digits used to identify the segment.
2. **Data Element Reference Designator** – The structured code assigned to a data element to indicate the segment in which it is used and its sequential position within that segment. This code is made up of the Segment Identifier followed by a two digit sequence number.
3. **Data Element Reference Number** – A unique reference number used to locate the data element definition and specifications in the Data Element Dictionary (standard where the contents of all data elements are defined).

4. **Data Element Separator** – The character selected by the sender which precedes every data element, whether the data element is used or not. The data element separator must be different from the segment terminator and, once selected, must not appear in a data element value.

5. **Data Element Name** – The name of the data element.

6. **Segment Terminator** – The character selected by sender to end each data segment. The segment terminator must be different from the data element separator and, once selected, must not appear in a data element value. (For CCD and PPD payments with addenda, this will always be a backslash.)

7. **Data Element Requirement Designator** – Defines the circumstances under which a data element must be present or not present in a particular data segment. The Data Element Requirement Designators are: mandatory, optional, or relational.

8. **Data Element Type** – Describes the characters that may be used.

N = Numeric

R = Decimal

ID = Identifier

AN = String

DT = Date

TM = Time

9. **Data Element Length** – The minimum and maximum length of the data element. The length of the data element value is the number of character positions used except as noted for numeric and decimal elements.

The format for ACH addenda records was developed to provide up to 80 characters of payment-related information. For CCD and PPD entries, there is a limit of one addenda record per transaction.