

## How to Use This Manual

The electronic payments industry is dynamic. New applications for making payments using the automated clearing house (ACH) network are constantly under development. Over the last 30 years the use of the ACH network has been evolving from direct deposit of an employee's payroll and collecting insurance premiums to electronic capture of MICR information to create an ACH transaction, payments authorized over the Internet, and international payments.

Written authorizations and paper recordkeeping have been replaced with electronic records and electronic storage of data. Changes in the ACH network mean not only changes to rules and regulations, but also changes to the way we conduct our business. "But we've always done it that way" does not apply here. *Automated Clearing House Transactions: Operations, Compliance, and Audit* is designed to help your financial institution keep pace with the changes in the ACH network and to allow for continual compliance with the ACH rules and associated regulations. This manual is not intended to replace the ACH Rules, nor should it be used instead of the ACH Rules. It is a reference tool containing explanations and examples to assist with application of the ACH Rules when originating or receiving ACH transactions.

What kind of assistance can you expect? Look to *Automated Clearing House Transactions: Operations, Compliance, and Audit* for help with:

- Returning items with the correct code and within the allowed time frame.
- Obtaining and completing the Written Statement of Unauthorized Debit.
- Conducting your annual ACH rules compliance audit.
- Understanding your responsibilities as an originating or receiving financial institution.

Why is compliance so important? Noncompliance with the ACH Rules can create the reporting of a possible rules violation, potentially resulting in a fine to the financial institution. Lack of ACH risk management policies and well-documented operational procedures can expose your financial institution not only to a financial loss, but also loss of account holders, and can even result in damage to your financial institution's reputation.

Staying informed can be a challenge. Updated periodically, this manual is an excellent tool for your financial institution to use not only to keep up-to-date, but to keep your account holders up-to-date as well.

### Organization of the Manual

*Automated Clearing House Transactions: Operations, Compliance, and Audit* is organized as follows:

#### Introduction to the ACH Network

Chapter 1: Introduction and Overview

Chapter 2: ACH Transactions

The chapters in this section explain the basics of the ACH network. To understand how the ACH works, you need to know who the participants in an ACH transaction are and the role they play in the processing of the transaction. Chapter 1 contains an overview of the roles of the participants that create, process, and settle ACH transactions and provides flow charts to help further define those roles.

Many types of transactions can be sent through the ACH network. For example, there are debit and credit transactions, consumer and corporate transactions, and transactions that are created by electronically capturing the MICR line of a check or share draft. The different types of ACH transactions, their uses, and how they can be identified are all explained in Chapter 2.

### **ODFI and RDFI Issues**

Chapter 3: Origination of ACH Entries

Chapter 4: Receipt of ACH Entries

Chapter 5: Returns and Corrections Generated by Financial Institutions

In this section you can find for complying with the ACH Rules. In order to properly process ACH transactions, your financial institution must be aware of the warranties and responsibilities that apply when receiving and originating these transactions. Using the proper codes to return entries or to send change information, and adhering to the required time frames when sending these transactions, are critical parts of the ACH process. Noncompliance with the rules could result in a financial loss to your financial institution, the loss of account holders, and potential damage to your financial institution's reputation.

### **Other ACH Participants**

Chapter 6: Corporate Originators

Chapter 7: ACH Operators

Chapter 8: Financial Institution/Third-Party Service Provider Relationships

In addition to financial institutions there are other parties that can play a significant role in the processing of ACH transactions. The obligations and responsibilities of originators, ACH operators, and third-party service providers are explained in detail in the chapters in this section.

### **Compliance Issues**

Chapter 9: Rules Enforcement

Chapter 10: Regulatory Compliance

Compliance with the ACH Rules, federal regulations, and the Uniform Commercial Code is essential for all ACH participants. In these chapters you will find guidance that can help your financial institution comply with the relevant regulations. Explanations of the potential liabilities that can result from noncompliance can also be found in these chapters.

## **Risk Management**

Chapter 11: Risk Management

Chapter 12: Fraud Risk

Your financial institution faces many types of risk when processing ACH transactions. The risk management chapters identify the major areas of risk that your financial institution has the potential to incur, and identify what you can do to help minimize your risk exposure.

## **ACH Audit**

Chapter 13: ACH Rules Compliance Audit

All financial institutions and third-party service providers are required by the ACH rules to conduct an annual audit of ACH rules compliance. This chapter provides guidance on performing the audit and includes worksheets and sample audit policies that your financial institution can customise to fit your needs.

## **Appendixes**

Appendix A: Glossary of Terms

Appendix B: Regional Payments Associations

Appendix C: Direct Financial Institution Members of NACHA

Appendix D: ACH Operators

Appendix E: EPN Rules 2011

Appendix F: Federal Reserve Bank Operating Circular No. 4

Appendix G: Resources

Appendix H: ACH Considerations in a Merger or Acquisition

Appendix I: ACH Risk Management Guidance

The appendixes provide relevant resource information to help your financial institution with day-to-day ACH operations and compliance.