



Dear Valued Customer,

With auditing stepped up in all areas of operations, you can be sure that ACH transactions are not exempt. The ACH rule amendment that will become effective December 18, 2009, refines and clarifies existing rules compliance audit requirements for all financial institutions. The revisions contained in the amendment will result in more effective annual audits, which will promote improved rules compliance and higher quality transaction processing. Compliance with the revised audit provisions is not mandatory until the 2010 audit year, but earlier adoption of these provisions can help to mitigate areas of potential risk caused by non-compliance with the rules.

The key audit requirements applicable to all financial institutions include:

- Record retention and reproduction requirements,
- Audit obligations,
- Data security requirements related to the use of unsecured electronic networks, and
- The payment of network transaction fees (including those exchanged via direct send relationships).

Your enclosed update to *ACH Transactions Risk Management* continues to provide operational guidance to help you mitigate your ACH processing risk. This update addresses the following new topics:

1. ACH Rules Amendment for transaction processing

- *In addition to the existing RDFI audit requirements, this update incorporates:*
 - Appropriate handling of XCK entries and entries received to non-transaction accounts;
 - Compliance with rules governing the return of unauthorized debits to corporate accounts;
 - Proper utilization of return reason codes;
 - Timely return of un-posted credit entries and credit entries returned by the Receiver;
 - Handling of ODFI requests for return or adjustments of erroneous entries; and
 - Compliance with notice requirements for credit entries subject to UCC Article 4A.
- *In addition to the existing ODFI audit requirements, this update incorporates:*
 - Compliance with its obligation to accept and inform the Originator of return entries transmitted by the RDFI;
 - Compliance with the rules governing dishonored return entries and handling of contested dishonored returns, including proper use of related return reason codes;
 - Compliance with the rules governing the refused NOC process;
 - Compliance with its obligation to obtain and provide the RDFI with copies of authorizations when requested to do so;

- Compliance with notice requirements for credit entries subject to UCC Article 4A;
 - Proper use of the reversal process; and
 - Compliance with the obligation to report information on each Originator or Third-Party Sender as requested by the National Association.
2. The rule amendment effective December 18, 2009, that makes it a Class 2 rules violation if a financial institution does not produce its annual ACH audit when requested by the National Association.
 3. How to handle inbound IAT debits entries in light of OFAC's revised requirements and expectations.
 4. Fraud risk. Fraud risk was already addressed in Chapter 2 for the RDFI and in Chapter 3 for the ODFI. This update adds a new expanded chapter on fraud that can apply to either the RDFI or ODFI.