

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 25 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, and payments authorized over the Internet.

Written authorizations and paper recordkeeping are being 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 financial institutions 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 under penalty of perjury.
- Conducting a self-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 the financial institution not only to a financial loss, but also loss of a customer or member, and can even result in damage to the financial institution's reputation.

Staying informed can be a challenge. Updated periodically, this manual is an excellent tool for financial institutions to keep not only themselves up-to-date, but to keep their customers and members 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 can be 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 we provide guidance to originating depository financial institutions (ODFIs) and to receiving depository financial institutions (RDFIs) for complying with the ACH Rules. Each financial institution must be aware of certain warranties and responsibilities. Using the proper codes to

return entries or to send change information and adhering to time frames is a critical part of the ACH process. Noncompliance with the rules could result in a financial loss to the financial institution, and even the loss of a customer or member.

Other ACH Participants

Chapter 6: Corporate Originators

Chapter 7: ACH Operators

Chapter 8: Financial Institutions/Third-Party Service Providers

In addition to financial institutions there are other parties that have significant roles 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, we provide guidance to help institutions comply with the relevant regulations and explain what the potential liabilities can be for noncompliance.

Risk Management

Chapter 11: Risk Management

Chapter 12: Fraud Risk

Institutions face risk from many different angles with respect to automated clearing house transactions. In these chapters, we identify the major areas of risk and what you can do to help minimize your exposure.

ACH Audit

Chapter 13: ACH Audit

Financial institutions and third-party service providers are required by the ACH Rules to conduct an annual self-audit. This chapter provides guidance on performing the audit and includes a sample audit policy that financial institutions can use to adapt to their own needs.

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