

## How to Use This Manual

The electronic payments industry is dynamic. Changes to the way the ACH network is used to make or collect payments occur constantly. In order to keep pace with the industry, financial institution employees with responsibility for ACH operations and compliance need quick answers to their questions. Continual changes in the use of the ACH network and the laws and rules under which it operates means there will always be questions about the practical application of those laws and rules. This comprehensive manual, *ACH Transactions Question & Answer Book*, provides practical answers.

Paper checks, written authorizations and paper recordkeeping are being replaced with electronic checks, electronic records and electronic data storage. Changes in the ACH network means changes to rules and regulations and changes to the way a financial institution is required to conduct business. *ACH Transactions Question & Answer Book* is designed to provide financial institutions' employees answers to the many questions that occur daily. By finding quick answers to important questions, financial institutions keep pace with the changes in the ACH network and remain in 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 handy, desktop reference tool containing questions and answers, 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 *ACH Transactions Question & Answer Book* to provide:

- Unique question-and-answer format that takes you right to your question and its answer.
- Focus on everyday questions and practical answers.
- Questions that are organized by topic, so you can easily find what you're looking for.
- A range of questions and answers tailored to help both trainees and senior staff.
- Answers that are direct and specific.

Noncompliance with the ACH rules can create the reporting of a possible rules violation, potentially resulting in a fine to the financial institution. When staff has questions they need quick, correct answers to ensure that your financial institution remains in compliance. Non-compliance can expose the financial institution not only to a financial loss, but also loss of customers or members, and can even result in damage to the financial institution's reputation.

Remembering all the rules, regulations, codes, etc. can be quite a challenge. Updated periodically, this manual is the ideal reference tool to have at your fingertips. The important material in this book can also be adapted to train and cross-train employees in the application of the ACH Rules when originating or receiving ACH transactions.

### **Organization of the Manual**

*ACH Transactions Question & Answer Book* is organized as follows:

#### **Introduction to the ACH Network**

Chapter 1: NACHA and ACH Participants

Chapter 2: ACH Transaction Types, Codes, Flow Charts, and Security

The chapters in this section explain the basics of the ACH network. Chapter 1 contains the questions and answers regarding the roles of the participants in an ACH transaction 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 many questions about different types of ACH transactions, their uses, and how they can be identified are all answered 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 answers to the many questions that arise in regard to originating depository financial institutions (ODFIs) and to receiving depository financial institutions (RDFIs) for complying with the ACH Rules. 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. This section provides answers, codes, procedures, time frames and much more to avoid noncompliance with the rules.

### **Other ACH Participants**

Chapter 6: Corporate Originators

Chapter 7: ACH Operators

Chapter 8: Financial Institutions — Third-Party Service Provider Relationships

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 a detailed question and answer format 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 answers to the questions institutions confront in order to comply with the relevant regulations, and explanations of what the potential liabilities can be for noncompliance.

### **Risk Management**

Chapter 11: Risk Management

Chapter 11A: 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 answer your questions as to what you can do to help minimize your exposure.

## **ACH Audit**

### Chapter 12: ACH Audit

Financial institutions and third-party service providers are required by the ACH Rules to conduct an annual self-audit. Many questions arise as to how to conduct such audits. This chapter provides answers and guidance on performing the audit and includes a sample audit policy that financial institutions can use to adapt to their own 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: 2006 Electronics Payments Network: Rules of Membership and Operating Rules

Appendix F: Federal Reserve Bank Operating Circular No. 4

Appendix G: Resources

The appendixes provide relevant resource information to help institutions with their ACH operations and compliance.