



**Federal Reserve Banks
Operating Circular No. 4**

AUTOMATED CLEARING HOUSE ITEMS

Effective April 27, 2009

**FEDERAL RESERVE BANKS
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1.0 GENERAL

- 1.1** This operating circular, its appendices, and our time and fee schedules govern the clearing and settlement of commercial automated clearing house (ACH) credit and debit items (including credit items subject to Article 4A) by the Federal Reserve Banks, sending banks, and receiving banks. Government ACH items are governed by Appendix D to this Circular. Each Reserve Bank has issued a Circular identical to this one.
- 1.2** This Circular is issued pursuant to Sections 4, 11A, 13, 16 and 19 of the Federal Reserve Act and related statutes. Except as otherwise provided in section 1.3, this Circular is binding on a sending bank that sends items to a Reserve Bank, a receiving bank that receives items from a Reserve Bank, an account holder that has agreed to settle for items under this Circular, and another party interested in an item that agrees to this Circular or that is otherwise bound by it.
- 1.3** The provisions of Article 4A are incorporated in this Circular with respect to credit items subject to Article 4A. In the event of inconsistency between the provisions of this Circular and Article 4A with respect to such a credit item, the provisions of this Circular shall control. As regards credit items subject to Article 4A, this Circular is an operating circular as referred to in Section 4A-107, and is not a funds transfer system rule as defined in Article 4A. Nevertheless, this Circular governs the rights and obligations of parties to a funds transfer subject to Article 4A to the same extent as if this Circular were a funds transfer system rule. Under Article 4A, this Circular is binding on parties to an item besides the sending and receiving banks if the parties have notice that the Reserve Banks' funds transfer system might be used for the transaction and that this Circular will apply, unless those other parties have agreed otherwise.
- 1.4** (a) Except as provided in paragraph 1.4(b), the Operating Rules of the National Automated Clearing House Association (NACHA), as amended from time to time, are incorporated in this Circular as applicable ACH rules with respect to items, regardless of whether the sending bank or receiving bank is a member of an ACH association.
- (b) Not incorporated in this Circular as applicable ACH rules are provisions of the NACHA Rules that:
- (i) conflict with applicable law;
 - (ii) with respect to credit items subject to Article 4A, conflict with provisions of Article 4A that may not be varied;
 - (iii) limit the applicability of the ACH rules to members of an ACH association;
 - (iv) require dues or fees (other than a reasonable fee for copies of the ACH rules and the NACHA Network Administration Fees established by the NACHA Rules);
 - (v) require execution of agreements by participating banks (such as settlement or indemnity agreements);
 - (vi) govern arbitration of disputes among participants; or
 - (vii) provide for payment of legal expenses to an ACH association in suits

against the association.

This Circular preempts or supersedes the applicable ACH rules or other arrangements among parties to ACH items only to the extent that the provisions of those arrangements are inconsistent with this Circular.

- 1.5** Any ACH item that is sent to the Reserve Bank for processing and settlement is subject to the provisions of this Operating Circular 4. The Reserve Bank processes such items as an ACH operator and does not collect, present, or return such items as a “collecting” or “returning” bank as those terms are used in the Uniform Commercial Code or in Regulation CC. Neither Operating Circular 3 nor Regulation J applies to the Reserve Bank’s processing and settlement of any ACH item.

2.0 DEFINITIONS

2.1 AS USED IN THIS CIRCULAR:

- (a) **account** means an account with reserve and/or clearing balances on the books of a Federal Reserve Bank. A sub-account is an information record of a subset of transactions that affect an account and is not a separate account.
- (b) **actually and finally collected funds** means cash or any other form of payment that is, or has become, final and irrevocable.
- (c) **Administrative Reserve Bank** means the Reserve Bank in whose District an entity is located, as determined under the procedure described in 12 CFR 204.3(b)(2), even if the entity is not otherwise subject to that section.
- (d) **applicable ACH rules** means the rules and agreements designated in this Circular as applicable to designated ACH transactions. See paragraph 1.4.
- (e) **Article 4A** means Article 4A of the Uniform Commercial Code as set forth in Appendix B of Regulation J 12 CFR Part 210, Subpart B. It includes provisions of Article 1 referred to in Article 4A as approved from time to time by the National Conference of Commissioners on Uniform State Laws and the American Law Institute.
- (f) **as of adjustment** means a debit or a credit, for reserve or clearing balance maintenance purposes only, applied to the account of a sending or receiving bank in lieu of an interest charge or payment.
- (g) **automated clearing house** or **ACH** means a facility that clears debit and credit items for banks.
- (h) **bank** means (i) a depository institution as defined in Section 19(b) of the Federal Reserve Act (12 U.S.C. 461(b)); (ii) a branch or agency of a foreign bank maintaining reserves under Section 7 of the International Banking Act of 1978 (12 U.S.C. 347d, 3105); (iii) a department, agency, instrumentality, independent establishment, or office of the United States, or a wholly owned

or controlled Government corporation; or (iv) another entity for which a Reserve Bank directly provides ACH services.

- (i) **banking day** means the part of a day during which a Reserve Bank, account holder, sending bank or receiving bank is open for the receipt, processing or transmission of items. See Appendix B for the Reserve Banks' ACH banking day. With respect to a credit item subject to Article 4A, banking day means a funds transfer business day.
- (j) **credit item** means an item a sending bank sends to a Reserve Bank for debit to the sending bank's settlement account and for credit to a receiving bank's settlement account. Unless otherwise expressly stated, the term includes a credit item subject to Article 4A.
- (k) **credit item subject to Article 4A** means a credit item that is a payment order as defined in Article 4A. The term does not include an ACH credit transaction any part of which is governed by the Electronic Fund Transfer Act, as amended, an inter-Reserve Bank settlement wire, or a non-dollar message such as a zero dollar return, prenotification, notification of change, or automated enrollment.
- (l) **debit item** means an item a sending bank sends to a Reserve Bank for credit to the sending bank's settlement account and for debit to a receiving bank's settlement account.
- (m) **effective date** means the date for settlement that a sending bank specifies in an item. See paragraph 8.
- (n) **effective date window** means the minimum and maximum period of days after the Reserve Bank processing date within which the effective date must fall to receive desired settlement. See paragraph 8.
- (o) **item** means an instruction for the payment of money that is handled by a Reserve Bank for processing or settlement under its ACH Circular. Item does not include: (i) an item or an electronic item as defined in Section 210.2 of Regulation J that is handled under Subpart A governing the collection of checks and other items; (ii) a payment order as defined in Section 210.26 of Regulation J that is handled under Subpart B governing funds transfers through the Fedwire[®] funds transfer system; (iii) a payment instruction subject to 31 CFR Parts 210 or 370, or other Treasury Department regulations governing Federal payments by the ACH method; or (iv) a wire transfer of securities by a Reserve Bank. Unless the context otherwise requires, the term includes both a credit item and a debit item.
- (p) **receiving bank** means a bank designated in an item to receive the item from a Reserve Bank. With respect to a credit item subject to Article 4A, the term receiving bank may include a beneficiary as defined in Article 4A.
- (q) **receiving point** means a device that is connected to the Reserve Bank's electronic systems and is designated or used by a bank for the purpose of

receiving items from a Reserve Bank.

- (r) **sending bank** means a bank designated in an item as sending the item to a Reserve Bank.
- (s) **sending point** means a device that is connected to the Reserve Bank's electronic systems and is designated or used by a bank for the purpose of sending items to a Reserve Bank.
- (t) **servicing Reserve Bank** means the Reserve Bank that is designated as a sending or receiving bank's primary contact for communications relating to ACH items.
- (u) **settlement account** means the account at a Reserve Bank that the sending bank or receiving bank maintains, or a correspondent bank's account that the sending bank or receiving bank uses to settle items.
- (v) **settlement date** means the date for settlement of an item as provided in this Circular.
- (w) unless the context otherwise requires, terms not defined in this paragraph but defined in the applicable ACH rules have the meanings given in such rules.

3.0 SENDING CREDIT AND DEBIT ITEMS

- 3.1 A sending bank that maintains or uses a settlement account at a Reserve Bank may send an item to any Reserve Bank, provided the receiving bank maintains or uses a settlement account for ACH items at a Reserve Bank
- 3.2 For purposes of this Circular and Article 4A, the sending bank is deemed to have sent an item to its Administrative Reserve Bank, regardless of which Reserve Bank holds the sending bank's settlement account, maintains its electronic connection or receives the item. With respect to any credit item that is subject to Article 4A, no Reserve Bank, other than the sending bank's Administrative Reserve Bank and the receiving bank's Administrative Reserve Bank, is a party to the item or a sender or receiving bank for purposes of Article 4A.
- 3.3 The sending bank's or receiving bank's Administrative Reserve Bank may instruct another Reserve Bank concerning the other Reserve Bank's handling of or settlement for an ACH item for purposes of managing the Administrative Reserve Bank's risk.
- 3.4 An item must be in the media the Reserve Banks prescribe and in the format prescribed by the applicable ACH rules.
- 3.5 If a sending bank uses any Reserve Bank service that permits or requires the sending bank or the Reserve Bank to take additional steps to release the file for processing, the file will be considered to have been sent to the Reserve Bank for purposes of this Operating Circular 4 at the time the sending bank (or the

Reserve Bank, if the Reserve Bank has expressly agreed to do so) has completed all steps that are necessary to release the file for processing by the FedACH application. Files consisting of ACH items that are transmitted to the Reserve Bank's systems by a bank must be released for processing prior to the end of day deadline, or the files will be rejected or deleted. The Reserve Bank assumes no duty to inform a bank that the bank has transmitted an ACH file but has not released that file for processing.

3.6

- (a) A sending bank may designate a sending point or ACH operator (other than a Reserve Bank) as its agent to send items to a Reserve Bank. It is the sending bank's responsibility to ensure that its agent complies with the sending bank's obligations under this Circular.
 - (i) By sending items to the Reserve Bank through an ACH operator other than a Reserve Bank, a sending bank designates the ACH operator as its agent for accessing the Reserve Bank's systems for processing ACH items, authorizes the ACH operator to select which security procedure to use to access the Reserve Bank's systems, and authorizes the ACH operator to execute Appendix A1, "ACH Security Procedure Agreement," on behalf of the sending bank.
 - (ii) By sending items to the Reserve Bank from a sending point that is owned or operated by an entity other than the sending bank itself, a sending bank designates the entity that operates the sending point as its agent for accessing the Reserve Bank's systems for processing ACH items, authorizes such agent to select which security procedure to use to access the Reserve Bank's systems, authorizes such agent to execute Appendix A1, "ACH Security Procedure Agreement," on behalf of the sending bank, and authorizes the Reserve Banks to act on the instructions of such agent with respect to the handling of items sent to the Reserve Bank by the agent on behalf of the sending bank. The sending point or ACH operator (other than a Reserve Bank) is not a sender or receiving bank as defined in Article 4A, or a party to the item, in acting as agent of a sending bank.
 - (iii) Prior to sending items to a Reserve Bank through an ACH operator other than a Reserve Bank or from a sending point that is owned or operated by an entity other than the sending bank itself, the sending bank must provide notice to the Reserve Bank in a form specified by the Reserve Bank.
 - (iv) The sending bank's agent's access to the Reserve Bank's electronic systems is governed by Reserve Bank Operating Circular 5, as amended from time to time, and the Certification Practice Statement, as amended from time to time.
- (b) The sending bank authorizes each Reserve Bank to act upon items, information, and instructions sent to a Reserve Bank by the sending bank's agent that the agent identifies as having been authorized by the sending bank.
- (c) The sending bank agrees that:

- (i) its agent will be granted credentials authorizing such agent to access the Federal Reserve Banks' systems for the purposes of the FedACH service;
 - (ii) its agent will use those credentials to act on behalf of the sending bank; and
 - (iii) its agent will use the same credentials to access the Federal Reserve Banks' FedACH systems on behalf of other sending banks that use the same agent to access the Reserve Bank's electronic systems. It is the responsibility of the sending bank and its agent to establish controls sufficient to assure that the agent properly segregates the items, information, and instructions of a sending bank from any items, information, or instructions of other sending banks. The Federal Reserve Banks are not required to take, and will not take, any measures to assure that the sending bank's work is properly identified or segregated by the agent. The sending bank authorizes each Reserve Bank to rely on the agent's identification of items, information, and instructions as having been originated or authorized by the sending bank.
- (d) The sending bank agrees to be bound by the agent's acts or omissions with respect to items that are handled by a Federal Reserve Bank pursuant to Operating Circular 4.
- (e) The sending bank authorizes its Administrative Reserve Bank to settle for items sent to or received from a Reserve Bank by the sending bank's agent, and to obtain from the sending bank payment as provided in this Operating Circular 4 for any fees owed to a Reserve Bank in connection with items sent to a Reserve Bank or received from a Reserve Bank by the sending bank's agent.
- (f) The sending bank agrees that the Reserve Bank may send items to the sending bank by delivering or transmitting such items to the sending bank's agent.
- (g) The Reserve Banks may rely on the agency appointment until it is revoked in writing and the Reserve Banks have had a reasonable amount of time to respond to such revocation.
- (h) Any obligations, regarding settlement of items, that exist at the time of any termination of the agency appointment shall survive the termination of the agency appointment.
- (i) The sending bank agrees to indemnify, defend, and hold the Reserve Banks harmless against any claim, loss, cost, or expense resulting from (i) the acts or omissions of the sending bank's agent; (ii) a Reserve Bank's acts or omissions in carrying out the instructions of such agent within the scope of the agency appointment; or (iii) the third party access arrangement including but not limited to attorney's fees and expenses of litigation, except for any

claim, loss, cost, or expense arising solely out of a Reserve Bank's failure to exercise ordinary care or to act in good faith.

4.0 SECURITY PROCEDURES

- 4.1** The security procedures a Reserve Bank offers to verify the authenticity of the source of an item are described in Appendix A of this Circular. Before sending an item to a Reserve Bank, a sending bank (or its agent, acting under written authority from the sending bank) must execute an agreement with its servicing Reserve Bank in the form of Appendix AI, copies of which are available from the Reserve Banks. If a sending bank sends an item to a Reserve Bank through an agent, the agent must execute an agreement in substantially the same form. A sending bank agrees to any security procedure used by the sending bank or by its agent in sending an item to a Reserve Bank.
- 4.2** Each sending and receiving bank shall prevent any disclosure of any aspects of the security procedures offered by the Reserve Bank, as provided in Reserve Bank Operating Circular 5. The sending or receiving bank shall notify its servicing Reserve Bank immediately if the confidentiality of these security procedures is compromised, and shall act to prevent the security procedure from being further compromised.

5.0 SENDING BANK'S AGREEMENTS

- 5.1** By sending an item to a Reserve Bank, the sending bank:
- (a) agrees to comply with the applicable ACH rules and agrees that those rules govern the relationships among the sending bank, the receiving bank and other parties interested in the item and covered by those rules;
 - (b) authorizes the Reserve Banks to process the item in accordance with this Circular;
 - (c) agrees that the Reserve Banks process the items as ACH operators and do not collect, present, or return the items under Operating Circular 3 or Regulation J as "collecting" or "returning" banks, as those terms are used in the Uniform Commercial Code or Regulation CC;
 - (d) authorizes the Reserve Bank holding the sending bank's settlement account to debit the amount of a credit item, or credit the amount of a debit item, to the sending bank's settlement account on the settlement date; and
 - (e) agrees to indemnify each Reserve Bank processing or settling for the item for any loss or expense (including attorneys fees and expenses of litigation) incurred by the Reserve Bank as a result of any action taken with respect to the item by the Reserve Bank in accordance with its Circular.
- 5.2** The agreements, authorizations and indemnity in paragraph 5.1 do not limit any other agreement, authorization or indemnity, not inconsistent with paragraph 5.1, made by a sending bank to a receiving bank, a Reserve Bank or another person.

5.3 PREFUNDING

The Administrative Reserve Bank of a (sending or correspondent) bank that settles for credit item originations may require the bank to prefund in accordance with Appendix C credit item originations that settle through the bank's account, if the Administrative Reserve Bank has determined to monitor the bank's account in real time. If credit item originations are not prefunded when required, they may be rejected.¹ In the event of prefunding, a Reserve Bank will substitute itself for the sending or correspondent bank's settlement obligation with respect to the credit items, and Appendix C shall supersede other provisions of this Circular that are inconsistent with Appendix C.

6.0 PROCESSING OF ITEMS

- 6.1** The Reserve Banks process items in accordance with the applicable ACH rules and this Circular. A Reserve Bank may reject, or may impose conditions to its processing of, any item for any reason. A Reserve Bank will not act on instructions in an item other than information required by format specifications in applicable ACH rules. If a Reserve Bank notifies a sending bank of the receipt of a suspected duplicate file or any other problem, the Reserve Bank will not process the file without approval by the sending bank or its agent. Except as expressly provided in this Circular, a Reserve Bank does not have or assume any responsibility for a sending or receiving bank's, or ACH operator's (other than a Reserve Bank's), compliance with applicable ACH rules. A Reserve Bank may record by audio recording device any telephone call relating to an item.
- 6.2** The Reserve Banks provide an acknowledgment to the sending bank that a Reserve Bank has received ACH files by electronic transmission and has performed limited processing of the files, as provided in applicable ACH rules. An acknowledgment does not mean that a Reserve Bank has accepted, and will not reject, the items contained in the files. The sending bank is responsible for verifying the information in the acknowledgment and notifying the servicing Reserve Bank immediately of any discrepancy, and for notifying the servicing Reserve Bank promptly of nonreceipt of an acknowledgment.
- 6.3** A sending bank must designate the receiving bank for an item by routing number. A Reserve Bank is not responsible for the accuracy of a routing number contained in and/or verbally supplied from a publication, list or automated file issued or maintained by a Reserve Bank if the routing number becomes inaccurate after the effective date of the publication, list or file. A Reserve Bank may process an item on the basis of a routing number of a receiving bank appearing in any form on the item when received. A Reserve Bank is not

¹ In certain circumstances, the Reserve Bank may be unable to determine whether a sending bank is able to prefund its credit item originations. In such circumstances prefunding can not occur, and any credit item originations settling to the account of a monitored bank may not be processed until the Reserve Bank is able to determine whether the sending bank has sufficient funds available in the designated settlement account. If the Reserve Bank is unable to obtain such information prior to the end of day cutoff, any files that have been pended may be rejected. The Reserve Bank is not liable for any loss or damage that results from delays in processing credit item originations, or from the rejection of credit items, settling to the account of a monitored institution in these circumstances.

responsible for any loss or delay resulting from acting on the number, whether or not the number is consistent with any other designation of the receiving bank on the item, if the Reserve Bank does not know of the inconsistency in designation. For purposes of Article 4A, an identifying number of a branch of a domestic bank is deemed to be the identifying number of the bank.

7.0 DELIVERY OF ITEMS

- 7.1** By prior arrangement with a receiving bank, a Reserve Bank sends items by electronic means to the receiving bank, or to a receiving point or ACH operator (other than a Reserve Bank) designated by the receiving bank. Alternatively, by prior agreement with a receiving bank a Reserve Bank may deliver items by making them available on the Reserve Bank's system for the receiving bank or its agent to retrieve. The Reserve Bank has delivered such items when it has placed the items on a Reserve Bank storage device and made the items available for the receiving bank or its agent to retrieve. In emergency circumstances, the Reserve Bank may send items as arranged with the receiving bank. If the receiving bank requests that items be sent to or made available for pickup by another person, that person is the receiving bank's agent and is not a sender or receiving bank as defined in Article 4A or a party to an item in acting as agent of the receiving bank, items are considered received by a receiving bank in accordance with applicable ACH rules, except as provided in paragraph 7.2. A receiving bank should promptly advise its servicing Reserve Bank by telephone if it does not receive items by the expected date.
- 7.2** A receiving bank must manage its electronic connection so as to permit it to receive items in a timely manner throughout the day. A receiving bank that does not receive items in a timely manner because it fails to so manage its electronic connection, or because of emergency circumstances beyond the control of a Reserve Bank, is required to settle for the items with a Reserve Bank on the settlement date, but is not considered to receive the items for purposes of the deadline for return, if the items are available timely for electronic transmission by a Reserve Bank to the receiving bank, or for pick-up at a Reserve Bank by the receiving bank. The receiving bank may choose next day debit with as of adjustment or explicit charge for float in lieu of settling on the settlement date for debit items.
- 7.3** For purposes of this Circular and Article 4A, the receiving bank is deemed to have received an item from its Administrative Reserve Bank, regardless of which Reserve Bank holds the receiving bank's settlement account, maintains its electronic connection or sends the item to the receiving bank. No Reserve Bank, other than the receiving bank's Administrative Reserve Bank and the sending bank's Administrative Reserve Bank, is a party to the item or a sender or receiving bank under Article 4A.
- 7.4**
- (a) A receiving bank may designate a receiving point or ACH operator (other than a Reserve Bank) as its agent to receive items from a Reserve Bank. It is the receiving bank's responsibility to ensure that its agent complies with the receiving bank's obligations under this circular.

- (i) By receiving items from the Reserve Bank through an ACH operator other than a Reserve Bank, a receiving bank designates the ACH operator as its agent for accessing the Reserve Bank's systems for processing ACH items, authorizes the ACH operator to select which security procedure to use to access the Reserve Bank's systems, and authorizes the ACH operator to execute Appendix A1, "ACH Security Procedure Agreement," on behalf of the receiving bank.
 - (ii) By receiving items from the Reserve Bank at a receiving point that is owned or operated by an entity other than the receiving bank itself, a receiving bank designates the entity that operates the receiving point as its agent for accessing the Reserve Bank's systems for processing ACH items, authorizes such agent to select which security procedure to use to access the Reserve Bank's systems, authorizes such agent to execute Appendix A1, "ACH Security Procedure Agreement," on behalf of the receiving bank, and authorizes the Reserve Banks to act on the instructions of such agent with respect to the handling of items received from the Reserve Bank by the agent on behalf of the receiving bank.
 - (iii) The receiving point or ACH operator (other than a Reserve Bank) is not a sender or receiving bank as defined in Article 4A, or a party to the item, in acting as agent of a receiving bank.
 - (iv) Prior to receiving items from a Reserve Bank through an ACH operator other than a Reserve Bank or at a receiving point that is owned or operated by an entity other than the receiving bank itself, the receiving bank must provide notice to the Reserve Bank in a form specified by the Reserve Bank.
 - (v) The receiving bank's agent's access to the Reserve Bank's electronic systems is governed by Reserve Bank Operating Circular 5, as amended from time to time, and the Certification Practice Statement, as amended from time to time.
- (b) The receiving bank authorizes each Reserve Bank to act upon items, information, and instructions sent to a Reserve Bank by the receiving bank's agent that the agent identifies as having been authorized by the receiving bank.
- (c) The receiving bank agrees that:
- (i) its agent will be granted credentials authorizing such agent to access the Federal Reserve Banks' systems for the purposes of the FedACH[®] service;
 - (ii) its agent will use those credentials to act on behalf of the receiving bank; and
 - (iii) its agent will use the same credentials to access the Federal Reserve Banks' FedACH systems on behalf of other banks that use the same agent to access the Reserve Bank's electronic systems. It is the responsibility of the receiving bank and its agent to establish controls sufficient to assure that the agent properly segregates the items, information, and instructions of a receiving

bank from any items, information, or instructions of other receiving banks. The Federal Reserve Banks are not required to take, and will not take, any measures to assure that the receiving bank's work is properly identified or segregated by the agent.

- (d) The receiving bank agrees to be bound by the agent's acts or omissions with respect to items that are handled by a Federal Reserve Bank pursuant to Operating Circular 4.
- (e) The receiving bank authorizes its Administrative Reserve Bank to settle for items sent to or received from a Reserve Bank by the receiving bank's agent, and to obtain from the receiving bank payment as provided in this Operating Circular 4 for any fees owed to a Reserve Bank in connection with items sent to a Reserve Bank or received from a Reserve Bank by the receiving bank's agent.
- (f) The receiving bank agrees that the Reserve Bank may send items to the receiving bank by delivering or transmitting such items to the receiving bank's agent.
- (g) The Reserve Banks may rely on the agency appointment until it is revoked in writing and the Reserve Banks have had a reasonable amount of time to respond to such revocation.
- (h) Any obligations regarding settlement of items that exist at the time of any termination of the agency appointment shall survive the termination of the agency appointment.
- (i) The receiving bank agrees to indemnify, defend, and hold the Reserve Banks harmless against any claim, loss, cost, or expense resulting from (i) the acts or omissions of the receiving bank's agent; (ii) a Reserve Bank's acts or omissions in carrying out the instructions of such agent within the scope of the agency appointment; or (iii) the third party access arrangement including but not limited to attorney's fees and expenses of litigation, except for any claim, loss, cost, or expense arising solely out of a Reserve Bank's failure to exercise ordinary care or to act in good faith.

8.0 TIME SCHEDULES, SETTLEMENT DATES AND EXTENSIONS OF TIME LIMITS

- 8.1** The ACH items time schedule (Appendix B) shows the banking days and the deadlines for a Reserve Bank to receive credit and debit items of various classes for immediate or next day settlement. The time schedule also shows the effective date window for classes of items and provisions for settlement for various effective dates.
- 8.2** The Reserve Banks process items in accordance with their processing schedules, and send them to the receiving bank on or before the settlement date. If, because of circumstances beyond a Reserve Bank's control, it is delayed beyond the applicable time limit in acting on an item (other than a credit item

subject to Article 4A), the time for acting is extended for the time necessary to complete the action, provided the Reserve Bank exercises such diligence as the circumstances require.

9.0 DESIGNATION OF SETTLEMENT ACCOUNT

- 9.1** Prior to sending an item to (or receiving an item from) a Reserve Bank, a sending bank (and a receiving bank) must designate to its Administrative Reserve Bank a settlement account(s) on a Reserve Bank's books, and identify the transactions to be settled through the account(s). See Operating Circular 1, "Account Relationships." If the bank designates a correspondent bank's account, the correspondent bank must agree to that designation. If the settlement account is on the books of a Reserve Bank other than the sending or receiving bank's Administrative Reserve Bank, the other Reserve Bank must not object to the designation. A correspondent bank whose account is used by a sending or receiving bank for settlement of items, and a Reserve Bank, other than the sending or receiving bank's Administrative Reserve Bank, that holds the settlement account, does not thereby become a sender or receiving bank as defined in Article 4A, or a party to an item. A sending or receiving bank remains responsible under this Circular for all transactions, notwithstanding that it has designated a settlement account, including a settlement account maintained by a correspondent bank. A Reserve Bank may in its discretion, recover the unpaid balance of the sending or receiving bank's obligation with respect to an item from the sending or receiving bank, respectively, without prior notice or demand.
- 9.2** A Reserve Bank may charge against a sending or receiving bank's designated settlement account the amount of the bank's ACH transactions, unless the Reserve Bank and the sending or receiving bank agree to other arrangements for settlement.
- 9.3** By designating a settlement account, a bank (and its correspondent bank, if any, that maintains the designated settlement account) authorizes the Reserve Bank that holds the settlement account: (1) to debit to the designated account on the settlement date the amount of credit items sent by the bank to a Reserve Bank, the amount of debit items sent to the bank by a Reserve Bank, and the amount of Government ACH debit items sent to the bank by a Reserve Bank; (2) to credit to the designated account on the settlement date the amount of debit items sent by the bank to a Reserve Bank, the amount of credit items sent to the bank by a Reserve Bank, and the amount of Government ACH credit items sent to the bank by a Reserve Bank; and (3) to debit and credit to the designated settlement account the amount of other transactions (including fees, unless otherwise agreed) with respect to ACH Items and Government ACH Items as provided in this Circular.
- 9.4** The bank (and its correspondent bank, if any, that maintains the designated settlement account) agrees to maintain to its credit in the designated settlement account, consistent with paragraph 10 of this Circular, a balance of actually and finally collected funds sufficient to cover charges under this Circular and all other charges to its account. The Reserve Banks assume no responsibility for any obligations or rights of a bank with respect to its correspondent bank, if any (or of

an intermediary correspondent that is not an account holder, if any with respect to its correspondent account holder).

- 9.5** By designating a settlement account, and in consideration of the processing and settlement by the Reserve Banks of items sent to and/or received by the bank and other sending and receiving banks, the bank (and its correspondent bank, if any, that maintains the designated settlement account) agrees to the Reserve Banks' Circular entitled "ACH Items" and to the applicable ACH rules, each as amended from time to time, for the benefit of all parties interested in the items.
- 9.6** A settlement designation supersedes all prior inconsistent designations with respect to items. The sending or receiving bank may terminate a settlement designation by written notice to the Reserve Bank that holds the account (and the Reserve Bank may terminate a settlement designation by written notice to the bank) effective five banking days after receipt of the notice or on a subsequent date specified in the notice. A correspondent bank (or an intermediary correspondent that is not an account holder, if any) may terminate a settlement designation by written notice to the Reserve Bank that holds the settlement account, effective only for ACH items to be settled on and after the banking day following the banking day of receipt of the notice or on a later date specified in the notice. A sending or receiving bank must designate another settlement account if its correspondent bank suspends payment or is closed, if the authority to charge the correspondent's account is terminated, or if the correspondent's Administrative Reserve Bank judges, in its discretion, that there will not be sufficient funds in the account on the settlement date to cover an item.

10.0 SETTLEMENT

- 10.1** A sending or receiving bank's settlement obligation is owed to its Administrative Reserve Bank, even if it has designated an account on another Reserve Bank's books for settlement. Settlement with the Reserve Bank that holds the settlement account is deemed to be settlement with the sending or receiving bank's Administrative Reserve Bank.
- 10.2** On the settlement date, the Reserve Bank that holds the sending bank's settlement account debits (or credits) that account in the amount of a credit (or debit) item, and the Reserve Bank that holds the receiving bank's settlement account credits (or debits) the receiving bank's account in the amount of the credit (or debit) item. Settlement for credit items must be made by the sending bank at the time provided in Appendix B, and credit for credit items is available for withdrawal or other use by the receiving bank at that time, subject to the provisions of this Circular. Settlement for debit items must be made by the receiving bank at the time provided in Appendix B, and credit for debit items is available for withdrawal or other use by the sending bank at that time, subject to the provisions of this Circular.

10.3 SECURITY INTEREST

To secure any obligation, now existing or arising in the future, in connection with

an ACH item by a sending or receiving bank (or by a correspondent bank whose account a sending or receiving bank uses for settlement) to a Reserve Bank, the bank grants to the Reserve Bank all the bank's right, title, and interest in property, whether now owned or hereafter acquired, in the possession or control of, or maintained with, any Reserve Bank, including but not limited to the bank's deposit account maintained with any Reserve Bank, items in the process of collection and their proceeds, and any investment property (including securities, security entitlements, and security accounts), but excluding any investment property which the bank may not encumber under applicable law. This security interest is in addition to any other security interest granted to a Reserve Bank by the bank under regulation or agreement. The secured Reserve Bank may take any action authorized by law to recover the amount owed to it by the bank, including but not limited to the exercise of setoff without demand or notice and even if the obligations are contingent or unmatured, the realization on any available collateral, and the exercise of any rights it may have as a creditor under applicable law.

10.4 REFUSAL TO SETTLE

If the Reserve Bank that holds the settlement account judges, in its discretion, that there may not be sufficient funds in the account at the settlement time provided in Appendix B on the settlement date to cover a debit for a credit item (including a credit item subject to Article 4A) or for a debit item, the Reserve Banks may cease processing the item and may refuse to settle for it. The Reserve Banks may also cease processing and refuse to settle for an item if they receive notice of the suspension or closing of the sending or receiving bank (other than the sending bank of a prefunded credit item) prior to the time settlement is final under this Circular. If the Reserve Banks cease processing or refuse to settle for an item, they will notify the sending bank and a receiving bank to which the item has been sent (or a correspondent bank whose account a bank uses for settlement) as soon as possible.

11.0 AVAILABILITY OF CREDIT

11.1 DEBIT ITEMS

Credit given for a debit item by the Reserve Bank that holds the sending bank's settlement account is available for use and may qualify as reserve for purposes of Regulation D (12 CFR Part 204) on the settlement date, subject to paragraph 10.4. this paragraph, and other provisions of this Circular. The Reserve Bank may refuse to permit the use of credit given for a debit item if it judges that there may not be sufficient funds in the sending bank's settlement account to cover chargeback or return of the item. If a Reserve Bank does not receive actually and finally collected funds in settlement of a debit item at or before 8:30 a.m. ET on the banking day following the settlement date, the Reserve Banks that hold the sending and receiving banks' settlement accounts may reverse the debit and credit previously made in settlement of the item by 8:30 am. ET, and will notify the sending and receiving banks (or a correspondent bank whose account a bank uses for settlement) as soon as possible.

11.2 CREDIT ITEMS

Credit given by the Reserve Bank that holds the receiving bank's settlement account for a credit item (including a credit item subject to Article 4A) is final and available for use and may qualify as reserve for purposes of Regulation D (12 CFR Part 204) at the settlement time provided in Appendix B on the settlement date.

12.0 RECEIVING BANK'S AGREEMENTS

12.1 A receiving bank, by maintaining or using an account with a Reserve Bank for settlement of items or by accepting an item from a Reserve Bank:

- (a) agrees to comply with the applicable ACH rules and agrees that those rules govern the relationships among the sending bank, the receiving bank and other parties interested in the item and covered by those rules;
- (b) agrees to process the item in accordance with this Circular;
- (c) agrees that the Reserve Banks process the item as ACH operators and do not collect, present, or return the items under Operating Circular 3 or Regulation J as "collecting" or "returning" banks, as those terms are defined in the Uniform Commercial Code or Regulation CC;
- (d) authorizes the Reserve Bank holding the receiving bank's settlement account to credit the amount of a credit item, or debit the amount of a debit item, to the receiving bank's settlement account on the settlement date; and
- (e) agrees to indemnify each Reserve Bank processing or settling for the item for any loss or expense (including attorneys' fees and expenses of litigation) incurred as a result of a breach of the foregoing agreements or of any action taken by the Reserve Bank in accordance with its Circular.

12.2 The agreements, authorization and indemnity in paragraph 12.1 do not limit any other agreement, authorization or indemnity not inconsistent with paragraph 12.1, made by a receiving bank to a sending bank, a Reserve Bank or another person.

13.0 REVOCATION OF ITEMS

13.1 A sending bank or prior party may not amend or revoke an item after it has been sent to a Reserve Bank, except as provided in applicable ACH rules.

13.2 A Reserve Bank may cancel items by initiating a reversing batch of items in accordance with applicable ACH rules if it discovers that a Reserve Bank sent a duplicate or erroneous batch of items. The Reserve Bank will notify the sending bank accordingly. Nothing in this Circular constitutes a waiver by any Reserve Bank of a right of recovery under the applicable law of mistake and restitution.

14.0 RETURN OF ITEMS AND FUNDS

- 14.1** A receiving bank may return a debit or credit item to any Reserve Bank in accordance with the applicable ACH rules and by the deadline set forth in the ACH time schedule. The receiving bank is accountable for the amount of a debit item if the returned item is not received by that deadline.
- 14.2** The Reserve Banks process a returned item they receive from a receiving bank and send it or make it available to the sending bank in accordance with the provisions of this Circular governing the processing of items. On the settlement date, the Reserve Bank that holds the sending bank's settlement account debits or credits that account in the amount of a returned debit or credit item, and the Reserve Bank that holds the receiving bank's settlement account credits or debits that account in the amount of the returned debit or credit item at the time provided in Appendix B, subject to the provisions of this Circular governing the settlement for items.
- 14.3** A receiving bank should keep records that permit it to identify the source of receipt of items. By sending a returned debit item to a Reserve Bank, a receiving bank:
- (a) agrees on request to provide records showing whether it received the debit item from a Reserve Bank, and
 - (b) if it did not receive the debit item from a Reserve Bank, agrees to indemnify the Reserve Banks for loss resulting from a Reserve Bank's failure to receive the amount of the returned debit item from the sending bank.
- 14.4** If a receiving bank sends an adjustment entry for an unauthorized debit item to a Reserve Bank in accordance with applicable ACH rules, the receiving bank agrees to indemnify the Reserve Banks for loss resulting from a Reserve Bank's failure to receive the amount of the adjustment from the sending bank, whether or not the receiving bank received the debit item from a Reserve Bank.

15.0 DISPUTED RETURNS

- 15.1** If a sending bank disputes the propriety of a returned item one time in accordance with applicable ACH rules, the Reserve Bank(s) that holds the sending bank's and the receiving bank's settlement accounts will provisionally settle for the disputed return, subject to receipt of funds from the receiving bank. If the receiving bank disputes the sending bank's claim in accordance with applicable ACH rules, the Reserve Bank(s) will reverse the provisional settlement for the disputed return, subject to receipt of funds from the sending bank.

16.0 ADVICES OF CREDIT AND DEBIT; REPORTING OF ERRORS

- 16.1** A Reserve Bank provides advices of credit and debit to an account holder for items for which the account holder has agreed to settle. An advice of credit indicates that credit has been given, subject to the provisions of this Circular. A Reserve Bank also, on request, provides advices to a person other than the bank or its correspondent, as the bank's agent, in accordance with paragraph 7 of this

Circular.

- 16.2** A Reserve Bank properly executes a credit item subject to Article 4A if it sends an advice of credit as requested by the receiving bank. A sending or receiving bank (and a correspondent bank, if any) agree that a reasonable time to notify its servicing Reserve Bank concerning an unauthorized or erroneously executed item is within thirty calendar days after the bank (or correspondent) receives an advice of debit. Notice after that time may constitute the failure to exercise ordinary care, precluding the recovery by the bank of interest (with respect to a credit item subject to Article 4A) and other damages (with respect to other items).
- 16.3** In addition to the requirement for prompt notice under paragraph 16.2. and Sections 4A-204 and 4A-304 of Article 4A, a sending or receiving bank (or a correspondent account holder, if any) shall notify its servicing Reserve Bank immediately if it learns of or discovers, from any source other than an advice of debit from the Reserve Bank, the possibility of error or lack of authority in the transmission or processing of an item. See also paragraph 4.

17.0 RECORDS

- 17.1** Each sending and receiving bank must keep records that permit it to resolve questions that arise concerning the handling of items, and to resend items if a Reserve Bank notifies it that the items have been lost because of a computer outage or other reason. A Reserve Bank keeps records of items processed for only one year after the settlement date.

18.0 FEES

- 18.1** The ACH Fee Schedule shows the charges imposed for processing and settlement of items. A Reserve Bank may make the charge to the sending or receiving bank's account, as otherwise agreed with the sending or receiving bank, or to the account designated by the sending or receiving point or ACH operator (other than a Reserve Bank), as applicable.
- 18.2** The Reserve Banks collect the NACHA Network Administration Fees established pursuant to the NACHA Rules by charging those fees to sending and receiving banks. An Administrative Reserve Bank will credit a bank's account for any claimed overcharge of the NACHA Network Administration Fees if the request for credit is received within the time frame provided in Operating Circular 1 for reporting errors in a Statement of Service Charges. Except as specifically provided in the preceding sentence, the Reserve Banks offer no procedure for resolving any dispute between a bank and NACHA regarding the NACHA Network Administration Fees.

19.0 NON-VALUE MESSAGES

- 19.1** The Reserve Banks handle a message that does not result in an accounting entry, such as a prenotification or notification of change, in the same manner as an item except that no funds are transferred. A Reserve Bank's liability for damage caused by its failure to exercise ordinary care, or by its own or its

employees' willful misconduct, in processing a non-value message may not exceed the amount of any fee paid to a Reserve Bank for the message.

20.0 RESERVE BANK LIABILITY; ITEM OTHER THAN CREDIT ITEMS SUBJECT TO ARTICLE 4A

20.1 LIMITATIONS ON LIABILITY

With respect to an item other than a credit item subject to Article 4A:

- (a) a Reserve Bank is responsible or liable only to a sending bank, a receiving bank or another Reserve Bank, and only for its own failure to exercise ordinary care, or for its own or its employees' willful misconduct;
- (b) a Reserve Bank does not act as the agent or subagent of another bank or person and is not liable for the insolvency, neglect, misconduct, mistake or default of another bank or person;
- (c) a Reserve Bank does not make any warranty with respect to an item it processes or settles for under this Circular; and
- (d) no person may make a claim against a Reserve Bank for loss resulting from the Reserve Bank's processing of or settling for an item after one year from the settlement date of the item. If a bank (or correspondent bank, if any) does not send written objection to an advice of debit to its servicing Reserve Bank within thirty calendar days after receipt of the advice, it is deemed to approve the debit on its own behalf (and on behalf of a sending or receiving bank using the account for settlement, if any).

20.2 MEASURE OF DAMAGES

The measure of damages for a Reserve Bank's failure to exercise ordinary care, or for its own or its employees' willful misconduct, is as follows:

- (a) For a credit item (including a returned credit item but excluding a credit item subject to Article 4A), its liability is limited to damages that are attributable directly and immediately to the failure to exercise ordinary care or to the willful misconduct, and does not include damages that are attributable to the consequences of such conduct, even if such consequences were foreseeable at the time of such conduct.
- (b) For a debit item (including a returned debit item), its liability for its failure to exercise ordinary care is limited to the amount of the item reduced by an amount that could not have been realized by the use of ordinary care. Where there is willful misconduct with respect to a debit item, the measure of damages includes other damages that are attributable directly and immediately to the willful misconduct, but does not include damages that are attributable to the consequences of such misconduct, even if such consequences were foreseeable at the time of such misconduct.

21.0 RESERVE BANK LIABILITY; CREDIT ITEM SUBJECT TO ARTICLE 4A

21.1 LIABILITY

A Reserve Bank's liability with respect to a credit item subject to Article 4A is governed by Article 4A, except as otherwise provided in this Circular. A Reserve Bank is not liable with respect to a credit item subject to Article 4A for any damages other than those payable under Article 4A. A Reserve Bank shall not agree to be liable for consequential damages with respect to a credit item subject to Article 4A under Section 4A-305(d) of Article 4A.

21.2 AS OF ADJUSTMENTS

A Reserve Bank, in its discretion, may satisfy its or another Reserve Bank's obligation to pay compensation in the form of interest under Article 4A by:

- (a) providing an as of adjustment to a sending or receiving bank in an amount equal to the amount on which interest is to be calculated multiplied by the number of days for which interest is to be calculated; or
- (b) paying compensation in the form of interest to a sending bank, receiving bank or another party to the item that is entitled to such payment, in an amount calculated in accordance with Section 4A-506 of Article 4A

21.3 If a sending or receiving bank that receives an as of adjustment in the form of a credit, or an interest payment, is not the party entitled to compensation under Article 4A, the bank shall pass through the benefit of the adjustment or payment by making an interest payment (as of the day the adjustment or payment is made) to the party entitled to compensation. The interest payment that is made to the party entitled to compensation shall not be less than the value of the as of adjustment or interest payment that was provided by the Reserve Bank to the sending or receiving bank. The party entitled to compensation may agree to accept compensation in a form other than a direct interest payment, if the alternative form of compensation is not less than the value of the interest payment that otherwise would be made.

21.4 A Reserve Bank may make an as of adjustment pursuant to paragraph 21.2 as follows:

- (a) The Reserve Bank will normally process and apply an as of adjustment to the reserve maintenance period during which the transaction giving rise to the obligation to pay interest occurred, so that there will be no impact on aggregate reserves. If the Reserve Bank determines that is not feasible, in its sole discretion, it will process and apply the as of adjustment to the current reserve period,
- (b) If an as of adjustment would be applied to one of the last three days of a reserve maintenance period, the Reserve Bank may apply it to either the

current or future reserve maintenance periods.

- (c) If a Reserve Bank delays execution of a credit item subject to Article 4A (see Section 4A-305(a) of Article 4A), the Reserve Bank may make an as of credit adjustment to the receiving bank's account. If the sending bank was not debited at the appropriate time, the Reserve Bank will make an offsetting as of debit adjustment to the sending bank's account.
- (d) If a Reserve Bank misdirects a credit item subject to Article 4A (see Sections 4A-303(c) and 4A-305(b) of Article 4A), the Reserve Bank may make an as of credit adjustment to the account of the bank that should have received the order. If agreed by the bank that received the misdirected order, the Reserve Bank will make an offsetting as of debit adjustment to the receiving bank's account.
- (e) If a Reserve Bank sends a credit item subject to Article 4A in an amount less than the amount that was intended (see Sections 4A-303(b) and 4A-305(b) of Article 4A), the Reserve Bank may make an as of credit adjustment to the receiving bank's account. If the sending bank was not debited in the appropriate amount, the Reserve Bank will make an as of debit adjustment to the sending bank's account.
- (f) If a Reserve Bank issues a duplicate credit item subject to Article 4A or a credit item subject to Article 4A that is in an amount more than was intended (see Sections 4A-303(a) and 4A-305(b) of Article 4A), and if the sending bank's account was not debited in the appropriate amount, the Reserve Bank may make an as of credit adjustment to the sending bank's account. If agreed by the receiving bank, the Reserve Bank will make an as of debit adjustment to the receiving bank's account,
- (g) If a Reserve Bank delays rejection of a credit item subject to Article 4A (see Sections 4A-209(b) and 4A-210(b) of Article 4A) the Reserve Bank may make an as of credit adjustment to the sending bank's account.
- (h) A Reserve Bank will apply offsetting as of adjustments to the same reserve maintenance periods to the extent feasible.

22.0 FORUM FOR ACTION

- 22.1** Any action against a Reserve Bank for that Reserve Bank's acts or omissions relating to the clearing of or settlement for an ACH item must be brought in the United States District Court and Division where the office or branch of the Reserve Bank that committed the alleged act or omission is located.

23.0 RECOVERY BY RESERVE BANK

- 23.1** If an action or proceeding is brought against a Reserve Bank based on:
 - (a) an alleged breach of (or an alleged failure to have the authority to make) any of the authorizations and agreements referred to in paragraphs 5.1 and 12.1

of this Circular by the sending or receiving bank, or an alleged breach of the applicable ACH rules by the sending bank, the receiving bank or another Reserve Bank; or

(b) any action by the Reserve Bank in accordance with its Circular

the Reserve Bank may recover from the sending bank, the receiving bank or the other Reserve Bank, as the case may be, any amount the Reserve Bank is required to pay under a final judgment or decree, together with interest, and the amount of attorneys' fees and other expenses of litigation incurred.

23.2 The Reserve Bank may recover the amount stated in paragraph 23.1 by charging the sending or receiving bank's account (or if the item was received from, sent to, or settled through another Reserve Bank, by charging the other Reserve Bank), if:

(a) the Reserve Bank has made timely written demand on the sending bank, receiving bank, or other Reserve Bank to assume defense of the action or proceeding; and

(b) no other arrangement for payment acceptable to the Reserve Bank has been made.

A Reserve Bank that has been charged under this paragraph may recover from the sending or receiving bank in the manner and under the circumstances set forth in this paragraph. A Reserve Bank's failure to avail itself of the remedy provided in this paragraph does not prejudice its enforcement in any other manner of the indemnity agreements referred to in paragraphs 5.1 and 12.1.

24.0 RIGHT TO AMEND

24.1 The Reserve Banks reserve the right to amend this Circular at any time without prior notice.

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APPENDIX A: ACH SECURITY PROCEDURES

1.0 GENERAL

- 1.1** The Reserve Banks offer the following security procedures to each sending bank that is authorized to send ACH items to a Reserve Bank, for the purpose of verifying the authenticity of the source of the ACH items. The security procedures are not used to detect an error in the transmission or the content of the ACH items.
- 1.2** Prior to selecting any Security Procedure, a sending bank should consider the degree to which the various options satisfy the sending bank's business needs given the size, type and frequency of ACH items sent to a Reserve Bank.
- 1.3** The Reserve Banks offer the following security procedures to each receiving bank that is authorized to receive ACH items from a Reserve Bank, for the purposes of verifying the authenticity of a request to retrieve ACH items and of maintaining the integrity and security of the Reserve Banks' data systems.

2.0 LEVEL ONE SECURITY PROCEDURES

- 2.1** The Reserve Banks offer one or more Level One Security Procedures. Level One Security Procedures are available to any bank that sends or receives ACH items by means of an encrypted communication connection between its facilities (or those of the bank's agent) and a Reserve Bank's facilities utilizing a hardware/software system specified by a Reserve Bank. A sending or receiving bank is responsible for ascertaining that its hardware and software systems (or those of its agent) comply with the Reserve Bank's specifications.
- 2.2** Each of the Level One Security Procedures is comprised of the following: security protocols embedded in the hardware and software associated with the equipment used to initiate, transmit, or receive ACH items; access controls that grant access to the FedACH systems, such as identification codes, confidential passwords, and in some cases digital certificates; and encryption of ACH items during the transmission process. All of the Level One Security Procedures require the bank to implement physical security as well as management controls that protect the hardware and software from unauthorized use.
- 2.3** The primary differences between the various Level One Security Procedures relate to the strength of the encryption algorithm, the type of software used to access a Reserve Bank's network, and the nature of the connection that a bank uses to access the Reserve Bank's systems.
- 2.4** The portions of the security procedures that are the responsibility of the bank are more specifically described in security documentation provided by the Reserve Bank. For computer interface customers this documentation includes the Computer Interface Protocol Specifications (CIPS), the Local Security Administrator Guide, and Operating Circular 5. For FedLine[®] DOS customers, this documentation includes the FedLine Users Guide, the FedLine PC

Administrator's Guide, the FedLine Management Guide, and Operating Circular 5. For FedLine Advantage[®] customers, the documentation includes the "FedLine Advantage Technical Support Liaison Guide," the "FedLine Advantage EUAC Access Management Guide," the "FedLine Advantage Subscriber Guide," and Operating Circular 5, including the Certification Practice Statement. For FedLine Direct[®] File customers, this documentation includes the "FedLine Direct Security and Implementation Guide" and Operating Circular 5, including the Certification Practice Statement. For FedLine CommandSM customers, this documentation includes the "FedLine Command Security and Implementation Guide" and Operating Circular 5, including the Certification Practice Statement. The bank is responsible for implementing the procedures set forth in the applicable security documentation provided to it by the Reserve Bank as well as any subsequent modification to the procedures.

- 2.5** If a bank uses a sending point (and/or a receiving point) that is owned or operated by an entity other than the bank, the bank designates such entity as its agent for the purposes described in paragraphs 3.6 and 7.4 of Operating Circular 4. The designation of such an agent shall in no way affect or diminish any obligation or duty of the bank under this appendix or the security documentation listed in paragraph 2.4 of this appendix. It is the bank's responsibility to ensure that its agent complies with the bank's obligations under this appendix and the security documentation listed in paragraph 2.4 of this appendix.

3.0 LEVEL TWO SECURITY PROCEDURE

- 3.1** The Level Two Security Procedure is available to any bank that sends ACH items to a Reserve Bank by electronic transmission that does not include both encryption and access controls. It is also used when a bank that normally sends ACH items under one of the Level One Security Procedures defined above is unable to do so because of an equipment or communications failure or other circumstances.
- 3.2** In the case of electronic transmission of ACH items, the Level Two Security Procedure is incorporated in the transmission process and, in general, includes either access controls or encryption. When ACH items are sent by magnetic tape, diskette, or electronic transmission that does not include either encryption or access controls, the Level Two Security Procedure includes a procedure whereby the sending bank or its agent provides file control information i.e., file ID, debit and credit dollar amounts, and entry/addenda count to a Reserve Bank and then the Reserve Bank compares that information against the file(s) it actually receives. The control information may be provided by a transmittal register or a telephone call. When the control information is provided by this means, it will be verified by a call back from the Reserve Bank.

APPENDIX A1: ACH SECURITY PROCEDURE AGREEMENT

Date: _____
To: Federal Reserve Bank of _____ Office

Attention: Manager: ACH Operations

We agree to the provisions of the Federal Reserve Banks' Operating Circular 4, entitled "Automated Clearing House Items" and its appendices (Circular"), as amended from time to time, and to the Reserve Bank's Operating Circular 5 entitled "Electronic Access" and the Certification Practice Statement incorporated in Operating Circular 5, as amended from time to time.

If we use an encrypted communications line with access controls for the transmission of ACH Items to a Reserve Bank, we will choose one of the Level One Security Procedures as generally described in Appendix A to the Circular, as such security procedure may be modified from time to time by the Reserve Banks. If you offer more than one Level One Security Procedure, when we use one of the Level One Security Procedures, we reject the other Level One Security Procedure(s) offered by you. We also agree that this procedure will be used if we receive ACH items by means of an encrypted electronic communications line with access controls. The chosen Level One Security Procedure will be used for the purpose of verifying that ACH items were sent or received by us.

If we use a method other than an encrypted communications line with access controls for the transmission of ACH items, we reject the Level One Security Procedures and choose the Level Two Security Procedure generally described in Appendix A to the Circular, as such security procedure may be modified from time to time by the Reserve Banks. This security procedure will be used for the purpose of verifying that ACH items were sent or received by us.

We understand that the Level Two Security Procedure as well as any of the Level One Security Procedures may be deemed commercially reasonable pursuant to Section 4A-202(c) of Article 4A of the Uniform Commercial Code.

Whenever we choose to use one of the Level One Security Procedures or the Level Two Security Procedure, we agree to be bound by any ACH item, whether or not authorized, sent in our name and accepted by a Reserve Bank in compliance with such procedure.

We understand that the Level One and Level Two Security Procedures will not be used to detect any error in the transmission or content of ACH items.

We also understand and agree that the security procedures established by this Agreement may be changed only by an amendment to Appendix A or other written agreement. The Agreement may not be changed by an oral agreement or by a course of dealing or custom.

Name of Bank _____

Authorized Signature _____

APPENDIX B: ACH ITEMS TIME SCHEDULE

1.0 BANKING DAY; DEADLINES; SETTLEMENT TIMES

1.1 This time schedule shows the Reserve Banks' banking day for processing ACH items, the deadlines for receipt of ACH files for settlement on the dates set forth in this Appendix, and the times for settlement of ACH Items.

1.2 BANKING DAY

The Reserve Banks' banking day for receipt of ACH items is from 3:00 a.m. ET to 2:59 a.m., ET on the next calendar day.²

1.3 FILE TRANSMISSION DEADLINES³

	Immediate Settlement⁴ (Returns and NACS Items)	End of Day⁵
Automated Items and FedWeb Returns	2:00 p.m. ET	2:15 a.m., ET
Voice Response Returns	2:00 p.m. ET	8:00 p.m. ET
Paper Returns and NOCs	8:00 a.m. ET	

1.4 DELIVERY TIMES AND EXTRA DELIVERIES

The Reserve Bank delivers items electronically at four scheduled times each Banking Day as described in paragraph 7 of Operating Circular 4. Upon prior request from a receiving bank the Reserve Bank may, in its sole discretion, provide one or more additional electronic deliveries each Banking Day to a receiving bank. If the Reserve Bank has agreed to provide extra deliveries, it will utilize best efforts to do so but makes no warranties that such deliveries will be made and shall have no liability to a receiving bank for providing or failing to provide the extra deliveries.

1.5 SETTLEMENT TIMES

Credit items are settled at 8:30 a.m. ET Debit items are settled at 11:00 a.m. ET. Immediate settlement items are settled at 5:00 p.m. ET.

² Reserve Banks process and transmit files up until 6:00 a.m., ET on the calendar day on which the banking day ends. Certain other times apply before and after weekends and holidays. All times listed are Eastern Time.

³ Deadlines represent the end of the file transmission window. Files must be completely received (e.g., data transmission fully concluded) by the deadline. Sending banks should coordinate the beginning of their transmission within the window to ensure completion by the deadline. Sending banks using non-electronic means for transmission, due to contingency situations, may be required to submit files at earlier deadlines.

⁴ Immediate Settlement (same-day settlement) means settlement on the same banking day as received. Immediate settlement is applicable only to returns and NACS (National Association of Check Safekeeping) items. Items designated for Immediate settlement that are received after the immediate settlement deadline will be settled the next banking day.

⁵ ACH Items must be received by the End of Day deadline to be processed as of the current banking day.

2.0 EFFECTIVE DATE WINDOWS

- 2.1 Items (other than returns, notifications of change (NOCs) and NACS items) should specify an effective date within the following effective date windows, computed from the Reserve Banks' banking day of receipt.

<u>Class</u>	<u>Effective Date Window</u>
Credit Items	One or Two Banking Days
Debit Items	One Banking Day Only

Items received with an effective date later than the effective date window will be returned to the sender.

3.0 SETTLEMENT DATES

- 3.1 Items with an effective date of one banking day are settled on the Reserve Banks' banking day following the banking day of receipt. Items with an effective date of two banking days are settled on the second banking day following receipt. The settlement date for immediate settlement items (returns and NACS items) that are received by the deadline for immediate settlement items is the banking day of receipt.
- 3.2 If an effective date is not specified, or if an item specifies an effective date the same as or earlier than the Reserve Banks' banking day of receipt, the settlement date is the banking day following receipt. If an item specifies a settlement date that is a standard Reserve Bank holiday, the settlement date is the next banking day for the Reserve Banks.
- 3.3 If an item specifies a settlement date that is not a banking day for the sending bank or the receiving bank, settlement is effected, with respect to that party, as follows:

Debit Items:

Sending bank closed: Credit sending bank's account on settlement date.

Receiving bank closed: Debit receiving bank's account on settlement date, or receiving bank may choose next day debit with as of adjustment or explicit charge for float.

Credit Items:

Sending bank closed: Debit sending bank's account on settlement date.

Receiving bank closed: Credit receiving bank's account on settlement date.

The receiving bank is not considered to receive an item made available to it on

the day it is closed until its next banking day for purposes of determining the deadline for return.

4.0 STANDARD HOLIDAYS

4.1 The Reserve Banks' banking days include all days except the following standard holidays:

All Saturdays,
All Sundays.
New Year's Day (January 1)
Martin Luther King's Birthday (third Monday in January).
President's Day (third Monday in February),
Memorial Day (last Monday in May),
Independence Day (July 4).
Labor Day (first Monday in September),
Columbus Day (second Monday in October).
Veteran's Day (November 11).
Thanksgiving Day (fourth Thursday in November),and
Christmas Day (December 25).

If January 1, July 4, November 11, or December 25 falls on a Sunday, the next following Monday is a standard Reserve Bank holiday.

APPENDIX C: PREFUNDING OF ACH CREDIT ORIGINATIONS BY SENDING OR CORRESPONDENT BANK

1.0 GENERAL

- 1.1 In order to reduce the risk of loss to Reserve Banks resulting from the finality of credit items, the Administrative Reserve Bank of a (sending or correspondent) bank that settles for credit item originations and whose account the Reserve Bank monitors in real time may notify the bank to prefund in accordance with this Appendix credit items that settle through the bank's account at the time a Reserve Bank processes the items.

A sending bank, by sending credit items, and a correspondent bank, by agreeing to settle for items, agree as follows:

2.0 DEFINITIONS

- 2.1 For purposes of this Appendix:

Settling bank means a sending bank that originates credit items, or the correspondent bank whose account the sending bank uses for settlement, that has been notified by its Administrative Reserve Bank that it must prefund the credit item originations that settle through its account.

Prefund means to pay, in actually and finally collected funds, to the settling bank's Administrative Reserve Bank, the total amount of all ACH credit item originations, including credit items originated through an ACH operator (other than a Reserve Bank), at the time a Reserve Bank processes the items.

3.0 PREFUNDING OF ACH CREDIT ITEMS

- 3.1 The settling bank's Administrative Reserve Bank may in its discretion, by notice to the settling bank, require that the settling bank irrevocably make available to the Administrative Reserve Bank, in actually and finally collected funds, the total amount of all ACH credit item originations at the time a Reserve Bank processes the items (to prefund). The settling bank authorizes its Administrative Reserve Bank, at the time a Reserve Bank processes the items, to deduct from the settling bank's account the amount needed to prefund the credit items.
- 3.2 If the settling bank fails or refuses to prefund the full amount of ACH credit items originated, the Reserve Banks may, in their discretion, refuse to process any batch containing credit item originations (including a batch with both credit items and debit items) that has not been prefunded. If the settling bank only partially prefunds the total amount of ACH credit item originations, the Reserve Banks may, in their sole discretion, determine which batch of credit items shall be considered to have been prefunded, or may refuse to settle for all the items, and will notify the sending (and a settling correspondent) bank.

- 3.3 If the settling bank prefunds the ACH credit items originated, its obligation to settle in respect of the prefunded ACH credit items originated up to the amount of the prefunding shall be automatically satisfied and discharged and replaced by an irrevocable obligation of a Reserve Bank to settle for the prefunded items on the settlement date.
- 3.4 A Reserve Bank shall have no obligation to the settling bank for interest or other compensation or adjustment for the prefunded amount between the date of prefunding and the settlement date.

4.0 MISCELLANEOUS

- 4.1 The Reserve Banks reserve the right to defer the availability of some or all of the credit arising from ACH debit items originated by the sending bank.
- 4.2 The Reserve Banks shall have no responsibility for any rights or obligations between a sending bank and its correspondent relating to this Appendix.
- 4.3 To the extent of any inconsistency between this Appendix and the Circular, the provisions of this Appendix shall govern.
- 4.4 The Reserve Banks reserve the right to amend this Appendix at any time without prior notice.

APPENDIX D: GOVERNMENT ACH ITEMS

1. The Reserve Banks handle ACH items for which an agency of the Federal Government is the sending bank or the receiving bank (Government ACH items) as fiscal agents of the United States under Treasury Department regulations, including 31 CFR Parts 210, 203, and 370, and Treasury procedures. As to matters those regulations and procedures do not cover, this Circular applies. The rules and procedures may differ as between commercial and Government ACH items, and as between Government ACH items of different types.
2. A Reserve Bank makes the amount of all Government credit items sent to a receiving bank available for withdrawal or other use by the receiving bank at 8:30 a.m. Eastern Time. A Reserve Bank may cease acting on a Government ACH item at any time upon direction of the Treasury Department and, if so, will so notify the bank.
3. Unless expressly authorized in writing by the Treasury Department, a sending bank shall not, under any circumstances, send a debit item designating the Government as receiving bank.
4. A Reserve Bank shall not have or assume any responsibility or liability to any person other than the Treasury Department with respect to Government ACH items.

APPENDIX E: FEDACH RISK[®] ORIGINATION MONITORING SERVICE

1.0 GENERAL

- 1.1 The Reserve Banks offer a FedACH Risk Origination Monitoring Service (Service) to sending banks that enables a sending bank to set dollar limits on certain batches of forward ACH items that the sending bank sends to a Reserve Bank. This Appendix provides the terms and conditions under which the Reserve Banks offer the Service.
- 1.2 Fees for the Service are determined by a fee schedule that the Reserve Banks publish from time to time.

2.0 DEFINITIONS

- 2.1 **Banking Day** has the meaning set forth in Appendix B of Operating Circular 4.
- 2.2 **Customer** means a sending bank that has signed up for the Service, following procedures established by the Reserve Banks, as amended from time to time.
- 2.3 **Company Identification**, with respect to a batch, means the data contained in the 10 character “company identification” field (or “originator identification” field for IAT batches) in the batch’s batch header record, as described in the “ACH record format specifications” in the NACHA Operating Rules, as amended from time to time.
- 2.4 **Credit Cap** means a dollar amount of forward credit items contained in certain batches sent by a Customer to a Reserve Bank.
- 2.5 **Debit Cap** means a dollar amount of forward debit items contained in certain batches sent by a Customer to a Reserve Bank.
- 2.6 **End of Day Default** means a preestablished instruction from a Customer to the Reserve Bank either to process or to reject at the end of a Banking Day any batch that has pending under the Service and that a Customer has not yet released or rejected.
- 2.7 **Managed Batch** means a batch of forward ACH items that a Customer sends to the Reserve Bank that is identified in the batch header record by a Managed Routing Number.
- 2.8 **Managed Routing Number** means a Bank Routing Number that has been issued to a Customer by Accuity and that a Customer has designated, as provided in sections 6.1 and 7.2 of this Appendix.
- 2.9 **Managed Company Identification** means a Company Identification that a Customer has designated, as provided in sections 6.1 and 7.2 of this Appendix. Managed Company Identifications are associated with a Managed Routing Number.

- 2.10 Terms not defined in this Appendix will have the same meaning as such terms are defined in Operating Circular 4.

3.0 SERVICE VERSIONS AND SELECTIONS

- 3.1 A Customer chooses one of three versions of the Service: **Routing Number Only**, **Company Identification Inclusive**, or **Company Identification Select**

- (a) Under the **Routing Number Only** version a Customer designates only a Managed Routing Number to identify the batches that are subject to the Service. Under this version:
- (i) When the Reserve Bank receives a Managed Batch the Reserve Bank will handle the batch as provided below in sections 4.2, 4.3, and 4.4 of this Appendix.
 - (ii) All batches that the Reserve Bank receives from a Customer that are not identified by a Managed Routing Number will not be subject to this Appendix but will be processed in accordance with Operating Circular 4.
- (b) Under the **Company Identification Inclusive** version, a Customer designates a Managed Routing Number and also designates an associated Managed Company Identification or multiple associated Managed Company Identifications to identify the batches that are subject to the Service. Under this version:
- (i) When the Reserve Bank receives a Managed Batch identified by a Managed Routing Number and an associated Managed Company Identification the Reserve Bank will handle the batch as provided below in sections 4.2, 4.3, and 4.4 of this Appendix.
 - (ii) When the Reserve Bank receives a Managed Batch from a Customer that is identified by a Managed Routing Number and a Company Identification that is not an associated Managed Company Identification, the Reserve Bank will pend the batch and handle the batch as provided in sections 4.3 and 4.4 of this Appendix.
 - (iii) All batches that the Reserve Bank receives from a Customer that are not identified by a Managed Routing Number will not be subject to this Appendix but will be processed in accordance with Operating Circular 4.
- (c) Under the **Company Identification Select** version, a Customer designates a Managed Routing Number and also designates an associated Managed Company Identification or multiple associated Managed Company Identifications to identify the batches that are subject to the Service. Under this version:
- (i) When the Reserve Bank receives a Managed Batch identified by a Managed Routing Number and an associated Managed Company Identification the Reserve Bank will handle the batch as provided in sections 4.2, 4.3, and 4.4 of this Appendix.

- (ii) All batches that the Reserve Bank receives from a Customer that (i) are not identified by a Managed Routing Number, or (ii) identified by a Managed Routing Number and a Company Identification that is not an associated Managed Company Identification will not be subject to this Appendix but will be processed in accordance with Operating Circular 4.

3.2 A Customer establishes a Credit and/ or Debit Cap for

- (a) each Managed Routing Number it has designated under the Routing Number Only version of the Service, and
- (b) each Managed Routing Number and associated Managed Company Identification under the Company Identification Inclusive and Company Identification Select versions of the Service.

3.3 A Customer designates a **Process Day** or **Exposure Days** method for each Credit Cap and/ or Debit Cap it has established.

- (a) Under the **Process Day** method a Credit Cap or Debit Cap applies to all the forward credit or debit items received by the Reserve Bank during the Banking Day.
- (b) Under the **Exposure Days** method a Credit Cap applies to all the forward credit items received by the Reserve Bank during the current Banking day plus two previous Banking Days and a Debit Cap applies to all the forward debit items, received by the Reserve Bank during the current Banking Day plus three previous Banking Days.

3.3 A Customer designates an End of Day Default for

- (a) each Managed Routing Number it has designated under the Routing Number Only version of the Service, and
- (b) each Managed Routing Number and associated Managed Company Identification under the Company Identification Inclusive and Company Identification Select versions of the Service.

In addition, a Customer who selects the Company Identification Inclusive version of the Service must also establish an End of Day Default that applies to each Managed Routing Number in the event that the Reserve Bank pends a batch under the circumstances described in 3.1(b)(ii) of this Appendix.

4.0 SERVICE

4.1 When a Customer sends a Managed Batch to the Reserve Bank, the Reserve Bank will perform the Service as described in this paragraph 4.

4.2 With respect to batches described in sections 3.1(a)(i), 3.1(b)(i), and 3.1(c)(i) of this Appendix, the Reserve Bank will determine whether the value of the forward items contained in these batches would exceed a Credit or Debit Cap.

- (a) If a batch does not exceed a Credit Cap or Debit Cap, the Reserve Bank will release the batch for processing and the Reserve Bank will thereafter handle the items in the batch in accordance with Operating Circular 4.
- (b) If a batch does exceed a Credit Cap or Debit Cap, the Reserve Bank will pend the Managed Batch.

4.3 When a Managed Batch has been pended pursuant to the terms of this Appendix, the Reserve Bank will send an email notification to email addresses that the Customer has designated.

- (a) The email from the Reserve Bank will notify the recipient that the Reserve Bank has pended a batch or batches and will request the Customer to release or reject the pended batch or batches.
- (b) A Customer contact who has authority to release or reject the pended batch may thereafter release or reject the pended batch or batches, using procedures established by the Reserve Bank, as amended from time to time, specifically for the purposes of the Service.

4.4 If no authorized Customer contact releases or rejects a Managed Batch, prior to 2:15 a.m. on the Banking Day on which the Reserve Bank has pended a Managed Batch, the Reserve Bank will either release or reject the batch in accordance with a Customer's End of Day Default that applies to the batch.

4.5 The Reserve Bank will also apply the End of Day Default in contingency situations in which a batch has pended under the Service and a Customer is unable to release or reject a Managed Batch using procedures established by the Reserve Bank specifically for the purposes of the Service.

5.0 RELATION TO OPERATING CIRCULAR 4 AND SECURITY PROCEDURES

With respect to an ACH item, the Service is a preprocessing service, separate and distinct from the ACH services offered by the Reserve Bank under Operating Circular 4. If an item is in a Managed Batch, a Customer has not sent that item to the Reserve Bank for purposes of Operating Circular 4 or Article 4A of the Uniform Commercial Code until the Service has been completed with respect to that item and the item has been released for processing.

The Service does not vary the Reserve Bank's security procedures, described in Appendix A of Operating Circular 4, or a Customer's ACH Security Procedure Agreement with the Reserve Bank. Further, the Service does not constitute a written agreement or instruction, as described in section 4A-202(b) of the Uniform Commercial Code, that restricts the Reserve Bank's acceptance of a payment order.

6.0 CUSTOMER DUTIES

- 6.1** Following procedures established by the Reserve Bank, as amended from time to time, specifically for the purposes of the Service, before the Reserve Bank will activate the Service, a Customer must:
- (a) Designate Managed Routing Numbers;
 - (b) Select one of the three versions of the Service for each Managed Routing Number;
 - (c) Designate any Managed Company Identifications associated with each Managed Routing Number;
 - (d) Establish Credit Caps and/or Debit Caps as appropriate;
 - (e) Choose a Process Day or Exposure Days method for each Credit Cap and Debit Cap;
 - (f) Establish an End of Day Default or Defaults as appropriate;
 - (g) If a Customer has chosen the Company Identification Inclusive version of the Service, establish an End of Day Default that applies under the circumstances described in section 3.1(b)(ii) of this Appendix; and
 - (h) Identify email addresses to receive email notifications regarding batches pending under this Appendix.
- 6.2** Following procedures established by the Reserve Bank, as amended from time to time, specifically for the purposes of the Service, before the Reserve Bank will activate the Service, a Customer must, at a minimum, designate one or more contacts who individually or in conjunction with other contacts have the following authority regarding the Service:
- (a) To set and edit the Service criteria listed in section 5.1 of this Appendix, and/ or
 - (b) To view batches pending under the Service, and/ or
 - (c) To reject or release for processing batches pending under the Service.
- 6.3** A Customer must manage its operations so as to permit it to receive notices, messages, and information in a timely manner throughout the day and night. If a Customer is unable to receive notices, messages, or information when the Reserve Bank attempts to send a notice, message, or information, the Reserve Bank:
- (a) shall be deemed to have sent the notice, message or information when the Reserve Bank attempted to transmit the notice, message, or information, and

(b) shall have no duty to attempt to resend the notice, message, or information.

6.4 A Customer shall indemnify, hold harmless, and defend a Reserve Bank against any claim, loss, liability, or expense made against the Reserve Bank by any person or incurred by the Reserve Bank in connection with its performance of the Service, except to the extent any claim, loss, liability, or expense is caused by the Reserve Bank's own negligence or failure to act in good faith.

7.0 PROCEDURES

7.1 A Customer agrees to use the Service by having an individual who is designated on a Customer's Official Authorization List complete and execute an agreement in a form provided by the Reserve Bank.

7.2 An individual who is designated on a Customer's Official Authorization List must designate an End User Authorization Contact (EUAC), following the practices and procedures of the Reserve Banks' Certification Practice Statement. An EUAC must designate, following the practices and procedures of the Certification Practice Statement, all individuals who will have authority to:

- (a) designate and edit the Service criteria listed in section 6.1 of this Appendix, and/or
- (b) view batches that have pended under this Appendix, and/ or
- (c) release or reject batches that have pended under this Appendix.

The Reserve Bank shall have no liability for any loss resulting from Customer's failure to designate, following the practices and procedures of the Certification Practice Statement, an EUAC or individuals with the authority described in this section.

7.3 A properly designated Customer Contact may exercise any of the authorities listed in section 7.2 of this Appendix by using electronic access to FedACH Information Services.

8.0 RESERVE BANK DISCLAIMERS

8.1 VARIANT COMPANY IDENTIFICATIONS OR BANK ROUTING NUMBERS

The Reserve Bank has no means of verifying that an originator or third party processor uses a Company Identification that a Customer has assigned to the originator or processor and specified as a Managed Company Identification. Originators or third party processors who create their own batch header records control the data in the company identification field. Variation of the Company Identification in a batch header record may permit an originator or processor to

circumvent the Debit Cap or Credit Cap set by a Customer that uses the Company Identification Select version.

- 8.2** If a Customer has more than one valid routing number, an originator or third party processor who creates their own batch header records may use a routing number other than a Managed Routing Number that a Customer expects the originator to use. Such a variation of the routing number in a batch header record may permit an originator or processor to circumvent the Debit Cap or Credit Cap set by a Customer.
- 8.3** The Service only tracks forward items. Returned debit and credit items will not be subject to this Appendix. This means that return items contained in batches that are identified by a Managed Routing Number or a Managed Routing Number and associated Managed Company Identification will continue to process even though forward items in Managed Batches identified by the same Managed Routing Number or Managed Routing Number and associated Managed Company Identification are pending under the Service. Return items will also not be subtracted from forward aggregate credit and debit totals.
- 8.4** Some originators balance their batches by including in a batch an offsetting debit or credit item equal to the batch's total amount of credit or debit items. The Service will not screen for or prevent originators from balancing their batches. Further, the Service will not net debits and credits from the forward aggregate credit and debit totals. This means that offsetting entries will count towards a Customer's Credit Cap or Debit Cap and may prevent straight through processing of batches.
- 8.5** The Service will not prevent fraud or risky behavior by ACH participants. The Service supplements but does not replace a Customer's other ACH risk management tools.
- 8.6** **NOT A REAL TIME SERVICE**

Certain aspects of the Service are provided manually and thus do not occur in real time. Specifically:

- (a) When a Customer instructs the Reserve Bank to release or reject a pended batch via FedACH Information Services, the Reserve Bank will execute the instruction within a reasonable period of time but not instantaneously. It is possible that a Customer's End of Day Default may override an instruction to release or reject a batch, if the Reserve Bank is unable to execute the instruction before 2:15 a.m.; and
- (b) The email notifications regarding pended batches that the Reserve Bank sends to specified email addresses will not be sent immediately after a batch pends.

8.7 RELEASE OF PENDED BATCHES IN CERTAIN CONTINGENCY SITUATIONS

If the Reserve Bank experiences a failure with the Service application, its own servers, or other aspects of its internal technological environment, it may elect in its sole discretion to release all batches that have been pended under the Service. The Reserve Bank may or may not be able to add the value of such released batches into Customer's applicable aggregate credit and debt totals. The Reserve Bank will have no liability for loss or harm resulting from such releases of pended batches.

9.0 LIABILITY

The Reserve Bank shall have no liability with respect to the Service to any party other than a Customer. The Service is not an insurance policy against all loss or harm that may result from ACH originations. The Reserve Bank will be liable only for the Reserve Bank's negligent acts or omissions or lack of good faith in performing the Service. The amount of the Reserve Bank's liability to a Customer for any claim, loss, liability or expense caused by the Reserve Bank's own negligence or lack of good faith in providing the Service will be limited to the "FedLine Web[®] W3" monthly access fee plus any fees charged for the Service during the one month immediately preceding the transaction or occurrence which gives rise to the liability. Any legal action against a Reserve Bank with respect to the Service must be initiated by a Customer within one year from the date of the transaction or occurrence that gives rise to the claim.

10.0 FORCE MAJEURE

If the Reserve Bank or a Customer is unable to perform its duties under this appendix because of interruption of communication or computer facilities, emergency conditions, failure of equipment, or other circumstances beyond its control, such nonperformance is excused so long as the party exercises such due diligence as the circumstances require.

11.0 TERMINATION

The Reserve Bank or a Customer may terminate the services provided under this Appendix by giving not less than ten calendar days prior written notice to the other party.

APPENDIX E1: FILE ALERT SERVICE

1. GENERAL

- 1.1. The Reserve Banks offer a File Alert Service (Service) to receiving banks that provides an email notice to a receiving bank when the total credit amount, debit amount, or number of items and addenda records within certain ACH files exceeds a credit, debit, or item and addenda count threshold that the receiving bank has set. This Appendix provides the terms and conditions under which the Reserve Banks offer the Service.
- 1.2. Fees for the Service are determined by a fee schedule that the Reserve Banks publish from time to time.
- 1.3. The Reserve Banks may amend the procedures used to sign up for and administer the Service from time to time.

2. DEFINITIONS

- 2.1. **Customer** means a receiving bank that has signed up for the Service, following procedures established by the Reserve Banks.
- 2.2. **Customer Item** means a forward or return ACH item that contains a Customer RTN in Field 3, "Receiving DFI Identification," of the item's Entry Detail Record.
- 2.3. **Outbound File** means an ACH file that (i) the Reserve Bank creates for delivery to Customer or Customer's receiving point and (ii) contains Customer Items.
- 2.4. **Credit Threshold** means a dollar amount, set by Customer, of forward or return credit items that are (i) Customer Items and (ii) contained in an Outbound File.
- 2.5. **Debit Threshold** means a dollar amount, set by Customer, of forward or return debit items that are (i) Customer Items and (ii) contained in an Outbound File.
- 2.6. **Item and Addenda Count Threshold** means a numerical amount, set by Customer, of Entry Detail Records and Addenda Records that (i) are contained in Outbound Files and (ii) are recorded in Field 3, "Entry/Addenda Count," of the Batch Control Record of a batch that contains only Customer Items.
- 2.7. **Customer RTN** means a routing number that has been issued to Customer and that Customer has designated to be covered by the Service, following procedures established by the Reserve Banks.

3. THE SERVICE

- 3.1. The Service is a post-processing information service, separate and distinct from the ACH services offered by the Reserve Bank under Operating Circular 4.

- 3.2. For each Customer RTN the Service will aggregate the total debit amount, credit amount, and/or item and addenda count from all Customer Items that are (i) within an Outbound File and (ii) identified by the applicable Customer RTN in Field 3 of the items' Entry Detail Record. If the aggregate debit amount, credit amount, or item and addenda count from such items exceeds the Credit Threshold, Debit Threshold, or Item and Addenda Count Threshold for the applicable Customer RTN, the Service will send an email notice of that event to the email address(es) that Customer has designated for the applicable Customer RTN.
 - 3.3. The Service only provides notice when an Outbound File exceeds the Credit Threshold, Debit Threshold or Item and Addenda Count Threshold for a Customer RTN. **The Service will not pend or stop any Outbound Files that exceed thresholds.**
4. Following procedures established by the Reserve Bank, as amended from time to time, specifically for the purposes of the Service, the Customer will:
 - 4.1. Set at least one of the following criteria for each Customer RTN: (i) Debit Threshold, (ii) Credit Threshold, or (iii) Item and Addenda Count Threshold.
 - 4.2. Provide at least one email address to receive email notices for each Customer RTN.
5. The Reserve Bank shall have no liability with respect to the Service to any party other than Customer. The Reserve Bank will be liable only for the Reserve Bank's negligent acts or omissions or lack of good faith in performing the Service. The amount of the Reserve Bank's liability to Customer for any claim, loss, liability or expense caused by the Reserve Bank's own negligence or lack of good faith in providing the Service will be limited to the "Fedline Web[®] W3" access fee for the one month preceding the transaction or occurrence which gives rise to the liability. Any legal action against a Reserve Bank with respect to the Service must be initiated by the Customer within one year from the date of the transaction or occurrence that gives rise to the claim.
6. The Reserve Bank or Customer may terminate the services provided under this Appendix by giving not less than ten calendar days' prior written notice to the other party.

"FedLine Web" is a trademark of the Federal Reserve Banks. A complete list of marks owned by the Federal Reserve Banks is available at FRBservices.org.

APPENDIX F: FEDACH INFORMATIONAL SERVICES

1.0 GENERAL

The Reserve Bank provides certain informational services in addition to the clearing and settlement services described in Operating Circular 4. Such informational services are subject to the terms and conditions of this Appendix F. To the extent that this Appendix F differs from Operating Circular 4, the terms of this Appendix F shall govern.

2.0 FEDACH INFORMATION SERVICES

- 2.1** Banks that access Reserve Bank ACH services through an electronic connection may access and use the Reserve Bank's systems to obtain and view such information or reports related to a bank's use of the FedACH service as the Reserve Bank may choose to make available from time to time. Not every form of electronic access to the Reserve Bank's systems for processing FedACH items may be used to obtain access to FedACH information services.
- 2.2** The Reserve Bank routinely deletes from its systems information that is no longer current. The Reserve Bank does not offer access to information or reports that have been deleted from the Reserve Bank's systems in the ordinary course of business.

3.0 FEDACH INFORMATION FILE SERVICE

- 3.1** The Reserve Bank offers an information file service. A bank agrees to receive this service by completing and executing an agreement in a form provided by the Reserve Bank. The Reserve Bank sends to a subscriber of this service a daily information file that copies the ACH detail information that was sent to the bank or its processor for posting.
- 3.2** The Reserve Bank will identify the file as an information file. A bank that receives an information file is solely responsible for insuring that the information file is not posted to customer accounts. By receiving any information file from the Reserve Bank the bank agrees to indemnify the Reserve Bank from any claim, loss, or harm that results from posting the information file to customer accounts.

4.0 LIABILITY

With respect to any use that a bank makes of the Reserve Bank's informational services under this appendix, the Reserve Bank shall be liable only to the bank, and not to any third party, and only for loss or damage proximately caused by the Reserve Bank's failure to exercise ordinary care or by its own or its employee's willful misconduct, and only up to the amount of: (a) any fee the bank paid to the Reserve Bank specifically for FedACH informational services during the one month period preceding the transaction or occurrence giving rise to the loss or damage; or (b) if the bank paid no fee to the Reserve Bank specifically for FedACH information services during the one month period preceding the transaction or occurrence giving rise to the loss or damage, the amount of the access fee paid by the bank to the Reserve Bank for the bank's electronic

connection to the Reserve Bank's FedACH service during the one month period preceding the transaction or occurrence giving rise to the loss or damage. In no event shall the Reserve Bank be liable for any special or consequential damages.

APPENDIX F1: FedEDI PLUS SERVICE

1.0 GENERAL

- 1.1 The Reserve Banks offer a FedEDI Plus Service (Service) that organizes and translates the information contained in certain ACH files into reports. The Service makes the reports available in electronic form to banks via FedACH[®] Information Services via the FedLine Web[®] access channel or, if the bank so designates, the Service will make reports available to certain email addresses via an encrypted email channel. This Appendix provides the terms and conditions under which the Reserve Banks offer the Service.
- 1.2 Fees for the Service are determined by a fee schedule that the Reserve Banks publish from time to time.
- 1.3 The Service will be available for each routing number (RTN) issued to a bank that the bank designates, following procedures established by the Reserve Bank. A bank will access and administer the Service for each of its designated RTNs separately unless it designates a Service Participation Point, as described below.
- 1.4 The Reserve Banks may amend the procedures used to sign up for or administer the Service from time to time.

2.0 DEFINITIONS

- 2.1 **Customer** means a sending or receiving bank that has signed up for the Service, using procedures established by the Reserve Bank.
- 2.2 **Report** means an electronic record of information that (i) was extracted from an ACH entry that was sent (or received) by Customer to (or from) a Reserve Bank; (ii) is related to one or more entries, originators, or receivers; and (iii) is available for access in different electronic formats.
- 2.3 **Scheduled Report** means a Report that the Service periodically generates based upon criteria that a Customer has provided using procedures established by the Reserve Bank, specifically for the purposes of the Service.
- 2.4 **On Demand Report** means a Report that a Customer generates at any time by accessing FedACH Information Services on FedLine Web and requesting that a Report be created based upon criteria that Customer has provided using procedures established by the Reserve Bank, specifically for the purposes of the Service.
- 2.5 **Service Participation Point** means a device that is connected to the Reserve Banks' electronic systems and is designated or used by Customer for the purpose of administering and accessing the Service.
- 2.6 **Service Participation Point Manager** means an entity other than Customer that owns or operates Customer's Service Participation Point.

3.0 THE SERVICE

- 3.1 The Service is a post-processing information service, separate and distinct from the ACH services offered by the Reserve Banks under Operating Circular 4.
- 3.2 In carrying out the Service the Reserve Bank will create and make available Reports requested by Customer using procedures established by the Reserve Bank specifically for the purposes of the Service.
- 3.3 Customer may access, download, and print Scheduled Reports from the Fedline Information Services website. Customer may also instruct the Reserve Bank using procedures established by the Reserve Bank specifically for the purposes of the Service, to make certain Scheduled Reports available to designated email addresses via an encrypted email channel. Scheduled Reports will remain available on FedACH Information Services on FedLine Web for subscribing Customers for 10 banking days from the day that the Service generates the reports.
- 3.4 From FedACH Information Services on FedLine Web Customer may request On Demand Reports, which the Service will generate and display in a temporary browser window. Customer may download or print an On Demand Report from the temporary browser window. The Service will not retain an On Demand Report once the temporary window is closed, though Customer may request that the Service regenerate the report. Customer will pay a fee for each request for an On Demand Report.

4.0 Following procedures established by the Reserve Bank, specifically for the purposes of the Service, Customer will:

- 4.1 select from a menu of available options the type(s) of Scheduled Report(s) that the Service will generate for Customer;
- 4.2 for each Scheduled Report:
 - a) if applicable, select from a menu of available options the report's frequency;
 - b) select an electronic format in which to view, download, and print the report; and
 - c) designate email addresses (if any) to which the reports will be made available via an encrypted email channel
- 4.3 for Scheduled Reports that contain information related to a specific receiver, provide the receiver's account number and a name for the receiver's account.

5.0 Customer may access and administer the Service itself for each of its designated RTNs separately or designate a Service Participation Point to access the service for all of Customer's designated RTNs. By designating a Service Participation Point that is operated by an entity other than Customer, Customer thereby also designates a Service Participation Point Manager to administer the Service for Customer.

- 5.1 Customer designates a Service Participation Point and, when applicable, a Service Participation Point Manager by following procedures established by the Reserve Bank specifically for purposes of the Service.
- 5.2 If Customer designates a Service Participation Point Manager, Customer will not be able to perform the report set up actions described in section 4 of this Appendix. Customer will be able to access its Scheduled Reports and request On Demand Reports if Customer has its own connection to FedLine Web.
- 5.3 If Customer designates a Service Participation Point for more than one of its RTNs and the Service Participation Point is operated by Customer then only a person holding a credential for the Service Participation Point's RTN will be able to perform the report set up actions described in section 4 of this Appendix. A person holding a credential for a Customer RTN that is not associated with the Service Participation Point will not be able to perform the Service's set up actions described in section 4 of this Appendix but will be able to access Scheduled Reports and request On Demand Reports associated with the RTN for which the person holds a credential.
- 5.4 By designating a Service Participation Point Manager for the Service, Customer authorizes the Service Participation Point Manager to act as Customer's agent with respect to the Service. Specifically, Customer authorizes its Service Participation Point Manager to do anything Customer can do with respect to the Service, including, but not limited to:
 - a) start or stop the Service at any time;
 - b) input and change certain Service level set up information on FedACH Information Services on FedLine Web;
 - c) perform the report set up actions listed in section 4 of this Appendix;
 - d) access, download, and print Customer's Scheduled Reports; and
 - e) generate, download, and print On Demand Reports.
- 5.5 A Service Participation Point Manager is a Service Provider for purposes of Operating Circular 5 and the Service Participation Point Manager's access to the FedACH Information Services on FedLine Web is governed by Operating Circular 5 and the Certification Practice Statement, as they each may be amended from time to time.
- 5.6 Customer agrees that its Service Participation Point Manager may be granted credentials authorizing such device or agent to access the Reserve Bank's systems for purposes of the administering the Service.
- 5.7 Customer agrees to be bound by its Service Participation Point Manager's acts or omissions with respect to the Service.
- 5.8 The Reserve Bank may rely on Customer's agency appointment of a Service Participation Point Manager until the appointment is revoked or amended in writing and the Reserve Bank has reasonable time to respond to such revocation or amendment.

6.0 ENCRYPTED EMAIL DELIVERY

- 6.1 By designating email addresses to which Scheduled Reports will be sent, Customer is instructing the Reserve Bank to send information, which may contain personally identifiable financial information or other sensitive information, to the email addresses of Customer's employees, Customer's authorized agents, or Customer's account holder who is the receiver of an ACH item or entry from which a Scheduled Report is generated. Customer agrees not to designate an email address of a person or entity other than Customer's employee, Customer's authorized agent or Customer's account holder who is the receiver of an ACH item or entry from which a Scheduled Report is generated. The Reserve Bank has no responsibility to ensure that the email addresses that Customer designates belong to any of these parties.
- 6.2 Customer will indemnify, defend, and hold the Reserve Bank harmless against any claim, loss, harm, or cost resulting from the Reserve Bank's acts or omissions in carrying out the Customer's instructions to send Reports to designated email addresses under this Appendix.
- 7.0 The Reserve Bank shall have no liability with respect to the Service to any party other than Customer. The Reserve Bank will be liable only for the Reserve Bank's negligent acts or omissions or lack of good faith in performing the Service. The amount of the Reserve Bank's liability to Customer for any claim, loss, liability or expense caused by the Reserve Bank's own negligence or lack of good faith in providing the Service will be limited to the "Fedline Web W3" monthly access fee plus any fees charged for the Service for the one month immediately preceding the transaction or occurrence which gives rise to the liability. Any legal action against a Reserve Bank with respect to the Service must be initiated by Customer within one year from the date of the transaction or occurrence that gives rise to the claim.
- 8.0 The Reserve Bank or the Customer may terminate the services provided under this Appendix by giving not less than ten calendar days' prior written notice to the other party.

APPENDIX G: CROSS-BORDER ITEMS

1. GENERAL

- (a) The Reserve Banks process cross-border ACH items in accordance with this Appendix, agreements between a Reserve Bank gateway operator and a foreign gateway operator, and the International ACH Service Manual issued by the Reserve Banks as applicable to specified foreign countries, as amended from time to time. These rules, agreements, and guidebooks generally do not supersede the laws and rules that apply to the handling of items in foreign payment systems. The application of foreign law and payment system rules to a cross-border ACH item may produce outcomes different from the outcomes that would result from handling of the same item under domestic rules. Such differences include, but are not limited to, the following: the time for return of cross-border items may be different; returned items may not be able to be dishonored; cross-border items may not be reversible; prenotes, and items to be settled on a foreign holiday, may not be acceptable; the receiver may not receive credit on the settlement date; and special fees may apply; and since distinctions between corporate and consumer payments may not be recognized under foreign law or payment system rules, the NACHA Cross-border SEC codes may not accurately reflect the status of inbound and return cross-border payments. Sending and receiving banks are responsible for understanding the rules applicable to cross-border payments in a foreign country, and the limitations on types of cross-border payment transactions that are accepted by Reserve Banks.
- (b) The terms and conditions of Operating Circular 4 apply to cross border items processed by the Reserve Bank, except to the extent that this Appendix expressly specifies terms and conditions that differ from those set forth in Operating Circular 4.

2. ORIGINATING GATEWAY OPERATOR WARRANTIES

Notwithstanding paragraph 21.1(c) of this Circular, a Reserve Bank acting as a gateway operator for an outbound cross-border item warrants to the sending bank only that it has processed and edited the item in a manner that is in compliance with the applicable agreement between the Reserve Bank gateway operator and the foreign gateway operator, and with this Appendix.

3. RECEIVING GATEWAY OPERATOR WARRANTIES

Notwithstanding paragraph 21.1(c) of this Circular, a Reserve Bank acting as gateway operator for an inbound cross-border item warrants to the receiving bank only that the item (a) is in accordance with an authorization of the receiver, and (b) is in compliance with the requirements of this Appendix.

4. GATEWAY OPERATOR LIABILITY

A Reserve Bank gateway operator's liability for breach of warranty under paragraphs 2 and 3 of this Appendix is limited to the amount of the item, interest and expenses, and does not include damages that are attributable to the consequences of the breach, even if the consequences were foreseeable at the time of the breach.

5. RISKS AND RESPONSIBILITIES OF SENDING AND RECEIVING BANKS

The sending bank bears all risk of exchange rate fluctuation with respect to a cross-border item. A Reserve Bank assumes no liability to a sending bank or other person with respect to a return of a cross-border item whether or not it is returned in accordance with the law or payments system rules of the receiving country. Sending and receiving banks are responsible for complying with applicable Office of Foreign Assets Control regulations (31 CFR Part 500 et seq.).