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1.0 GENERAL

- 1.1 Operating Circular 4, its appendices, the FedACH Processing Schedule, as amended from time to time, and our 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 Operating Circular 4 is issued pursuant to Sections 4, 11A, 13, 16 and 19 of the Federal Reserve Act and related statutes. Except as otherwise provided in paragraph 1.3, Operating Circular 4 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 Operating Circular 4, and any other party interested in an item that agrees to Operating Circular 4 or that is otherwise bound by it.
- 1.3 The provisions of Article 4A are incorporated in Operating Circular 4 with respect to credit items subject to Article 4A. In the event of inconsistency between the provisions of Operating Circular 4 and Article 4A with respect to such a credit item, the provisions of this Circular shall control. In regards to credit items subject to Article 4A, Operating Circular 4 is an operating circular as referred to in Section 4A-107 of Article 4A, and is not a funds transfer system rule as defined in Article 4A. Nevertheless, Operating Circular 4 governs the rights and obligations of parties to a funds transfer subject to Article 4A to the same extent as if Operating Circular 4 were a funds transfer system rule. Under Article 4A, Operating Circular 4 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 Operating Circular 4 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 Operating Circular 4 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 Operating Circular 4 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 fees collected or distributed by the Reserve Bank as provided in paragraph 1.6 ;
 - (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.

Operating Circular 4 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 Operating Circular 4.

- 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.
- 1.6** Any price or fee that is established by the Nacha Operating Rules may be collected and distributed by the Reserve Bank if approved by the Board of Governors of the Federal Reserve System.

2.0 DEFINITIONS

2.1 AS USED IN OPERATING CIRCULAR 4:

- (a) **account** means a Master Account as defined in Operating Circular 1 as amended from time to time.
- (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 Regulation D (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 Operating Circular 4 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) **automated clearing house** or **ACH** means a facility that clears debit and credit items for banks.
- (g) **bank** means (i) a depository institution as defined in Section 19(b)(1.)(A.) 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.

- (h) **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.
- (i) **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.
- (j) **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.
- (k) **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.
- (l) **effective date** means the date for settlement that a sending bank specifies in an item. See paragraph 8.
- (m) **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.
- (n) **FedACH Processing Schedule** means the schedule published by the Reserve Banks on the FRBservices.org® website stating (1) the Cut-Off Times and the opening and closing times for each funds-transfer business day and (2) each holiday observed by the Reserve Banks that is not a funds-transfer business day. The Reserve Banks may amend the Funds Schedule from time to time.
- (o) **item** means an instruction for the payment of money that is handled by a Reserve Bank for processing or settlement under this Operating Circular 4. 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) **same day item** means a forward or return item that (i) meets the requirements specified in paragraph 3.4 (b) of this Operating Circular and (ii) is received by the Reserve Bank by the applicable same day settlement transmission deadlines specified in the FedACH Processing Schedule.
- (s) **sending bank** means a bank designated in an item as sending the item to a Reserve Bank.
- (t) **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.
- (u) **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.
- (v) **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.
- (w) **settlement date** means the date for settlement of an item as provided in Operating Circular 4.
- (x) 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 Operating Circular 4 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.

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 reasonable 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 FedACH Services 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 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.
- 18.3** The Reserve Banks collect the ACH Quality Fees by charging those fees to the sending bank and crediting the receiving bank. The Reserve Banks offer no procedure for resolving any dispute between a bank and another bank or Nacha regarding the Nacha ACH Quality Fees.
- 18.4** The Reserve Banks collect the Same Day Entry Fees by charging those fees to the sending bank and crediting the receiving bank. The Reserve Banks offer no procedure for resolving any dispute between a bank and another bank or Nacha regarding the Nacha Same Day Entry Fees.

19.0 ZERO-VALUE MESSAGES

- 19.1** The Reserve Banks handle a message that has a value of zero, 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 zero-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 Operating Circular 4; 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, or the collection or distribution of any fee, 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.

- (c) With respect to any fee that the Reserve Bank collected, the amount of damages is limited to the amount of the fee. With respect to any portion of the fee that the Reserve Bank distributed, the amount of damages is limited to the amount that the Reserve Bank failed to distribute.

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 Operating Circular 4. 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 COMPENSATION AND ADJUSTMENTS

A Reserve Bank satisfies its or another Reserve Bank's obligation to pay compensation in the form of interest under Article 4A by crediting the account of a sending bank, a 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 PASS THROUGH TO PARTY ENTITLED TO COMPENSATION

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

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, or to the collection or payment of fees, 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 Operating Circular 4 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 Operating Circular 4 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 Operating Circular 4 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 FedLine Advantage® customers, the documentation includes the "*FedLine Advantage® Security and Control Procedures*," the "*FedLine Advantage® Monitoring and Control Guidelines*," the "*FedLine Advantage® EUAC Access Management Guide*," the "*FedLine Advantage® Subscriber Guide*," and Operating Circular 5, including the Certification Practice Statement. For FedLine Direct® customers, this documentation includes the

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 DEADLINES AND SETTLEMENT TIMES

The Reserve Banks publish a FedACH Processing Schedule, which we amend from time to time, which establishes multiple deadlines within each FedACH banking day for receipt of ACH files. Based on the date and time when an item is received by a Reserve Bank and certain defined characteristics of the item, the Reserve Bank will process and settle for that item on the date and time specified in the FedACH Processing Schedule.

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 DELIVERY TIMES AND EXTRA DELIVERIES

The Reserve Bank delivers items electronically, as described in paragraph 7 of Operating Circular 4, at ~~five~~ scheduled times each banking day.³ 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.

2.0 EFFECTIVE DATE WINDOWS

2.1 Items (other than returns and notifications of change (NOCs)) 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.

2.2 Same day items must specify in the effective entry date field no value or any

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 The scheduled delivery times, as amended from time to time, are made available by the Reserve Bank on FRBservices.org.

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.

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, Operating Circular 4, including its appendices, applies. The rules and procedures may differ as between commercial and Government ACH items, and as between Government ACH items of different classes.
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 the settlement time for such items specified in the FedACH Processing Schedule. 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

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 select specific criteria for monitoring batches of forward ACH items that the sending bank sends to a ReserveBank. This Appendix further describes the available criteria offered under this Service and 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 **Company Identification Inclusive** means a Customer is using Monitor Companies and has elected to pend any batches associated with an **Unmonitored Company**.
- 2.5 **Company Identification Select** means a Customer is using **Monitor Companies** and has elected not to pend any batches associated with an **Unmonitored Company**.
- 2.6 **Credit Cap** means a dollar amount of forward credit items contained in certain batches sent by a Customer to a Reserve Bank.
- 2.7 **Debit Cap** means a dollar amount of forward debit items contained in certain batches sent by a Customer to a Reserve Bank.
- 2.8 **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 pended under the Service and that a Customer has not yet released or rejected.
- 2.9 **Exposure Days** refers to the monitoring of all the forward credit items sent by a Customer and received by the Reserve Bank during the current Banking day plus two previous Banking Days and to all the forward debit items sent by a Customer and received by the Reserve Bank during the current Banking Day plus three previous Banking Days.

APPENDIX F: FEDACH® INFORMATION SERVICES

1.0 GENERAL

- 1.1 The Reserve Banks provide certain information services that are based on data contained in or information related to items but that are separate and distinct from the clearing and settlement services described in Operating Circular 4. All of the particular services described in this Appendix F and Appendices F1, F2, ~~F3~~ and ~~F34~~ are, collectively, the FedACH Information Services. Terms and conditions that apply to all FedACH Information Services are set forth in this Appendix F. Terms and conditions that apply specifically to the FedPayments® Reporter Service are set forth in Appendix F1. Terms and conditions that apply specifically to the RDFI Alert Service are set forth in Appendix F2. Terms and conditions that apply specifically to the FedACH Information File Service are set forth in Appendix F3. Terms and conditions that apply specifically to FedPayments Insights Service are set forth in Appendix F4. To the extent that this Appendix F or Appendix F1, F2, ~~F3~~, or ~~F34~~ differs from Operating Circular 4, the terms of Appendices F, F1, F2, ~~F3~~ and ~~F43~~ shall govern.
- 1.2 Banks agree to receive FedACH Information Services using procedures established by the Reserve Banks, as they may be amended from time to time.

2.0 DEFINITIONS

- 2.1 **Customer** means, with respect to a particular FedACH Information Service, a sending bank or receiving bank, as applicable, that has signed up for that service using procedures established by the Reserve Banks from time to time.
- 2.2 **Nonpayment File** means an electronic file that
- (a) is identified by the sender of the file, in accordance with technical specifications defined by the Reserve Banks, as a file containing information related to ACH transactions that is being sent only for informational purposes, as described in this Appendix F or Appendix F1, F2, ~~F3~~ or ~~F34~~, and not for clearing and settlement; and,
 - (b) is transmitted from a bank or bank's agent to a Reserve Bank, or from a Reserve Bank to a bank or bank's agent, using any Electronic Access service provided by a Reserve Bank.
- 2.3 **Information Point** means a device that is connected to a Reserve Bank's electronic systems and is designated or used by a bank to send Nonpayment Files to a Reserve Bank or receive Nonpayment Files from a Reserve Bank.
- 2.4 **Service Participation Point** means a device that is connected to the Reserve Banks' electronic systems and that is designated or used by a bank for purposes of accessing and administering FedACH Information Services pursuant to Appendix F, F1, F2, ~~F3~~ or ~~F34~~ but that is not used to send or receive Nonpayment Files.

APPENDIX F1: FEDPAYMENTS® REPORTER SERVICE

1.0 GENERAL

1.1 The Reserve Banks offer a FedPayments Reporter Service (Service) that presents information contained in certain ACH files as human readable reports and machine readable files. The Service makes the reports available in electronic form to Customers via the electronic channels specified below. This Appendix F1 and applicable sections of Appendix F provide the terms and conditions under which the Reserve Banks offer the Service.

2.0 DEFINITIONS

2.1 **On Demand Report** means a Report that a Customer generates at any time by accessing FedACH® Information Services via the FedLine Web® access channel and requesting that a Report be created based upon criteria that Customer has provided using procedures established by the Reserve Banks, specifically for the purposes of the Service.

2.2 **Report** means an electronic record of information that (i) was extracted from information contained in a payment file that was sent (or received) by Customer to (or from) a Reserve Bank under Operating Circular 4, and/or from information in a Nonpayment File that was sent by Customer to a Reserve Bank under Appendix F; (ii) is related to one or more ACH items, 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 Banks, specifically for the purposes of the Service.

3.0 THE SERVICE

3.1 In carrying out the Service the Reserve Banks will create and make available Reports requested by Customer using procedures established by the Reserve Banks specifically for the purposes of the Service.

3.2 Pursuant to Appendix F, a Customer may send Nonpayment Files to the Reserve Banks so that the Service may include information from those files in the Reports that the Service creates and makes available to Customer. Only certain Reports are available for information sent to the Reserve Banks in Nonpayment Files.

3.3 The Service makes Scheduled Reports available to Customer in three ways.

(a) Customer may access, download, and print Scheduled Reports from the FedACH Information Services website via the FedLine Web access channel;

(b) Customer may instruct the Reserve Banks using procedures established by the Reserve Banks specifically for the purposes of the Service, to make certain Scheduled Reports available to designated email addresses via an

APPENDIX F2: RDFI ALERT SERVICE

1.0 GENERAL

- 1.1 The Reserve Banks offer a RDFI Alert Service (Service) to receiving banks that provides an email notice to a receiving bank or its receiver when certain ACH files, batches, or items match criteria selected by the receiving bank. A receiving bank may select criteria in three different ways. A receiving bank may select the criteria on its own, allow the Reserve Bank to select the criteria on its behalf, or establish the criteria by varying, to the extent permitted, the criteria selected by the Reserve Bank on its behalf. For the purposes of this Appendix F2, all three methods will constitute criteria selected by the Customer. This Appendix F2 and applicable sections of Appendix F provide the terms and conditions under which the Reserve Banks offer the Service.
- 1.2 The Reserve Banks may amend the procedures used to sign up for and administer the Service from time to time.

2.0 DEFINITIONS

- 2.1 **Amount Rule** means a rule, selected by Customer, in accordance with section 4 below, that applies to a Debit Amount or Credit Amount that is part of a Batch Criteria Set or Item Criteria Set.
- 2.2 **Batch Criteria Set** means a set of criteria, selected by Customer that applies to Customer Batches. The set includes one or any combination of the following: Debit Amount together with its Amount Rule, Credit Amount together with its Amount Rule, Item and Addenda Count Amount, Field Value(s), and Settlement Time.
- 2.3 **Credit Amount** means a dollar amount, selected by Customer, that applies to either (i) all forward or return credit items that are Customer Items and contained in an Outbound File or Customer Batch, or (ii) a single Customer Item.
- 2.4 **Customer Batch** means an ACH batch that contains Customer Items and is contained in an Outbound File.
- 2.5 **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.
- 2.6 **Customer RTN** means a routing number that has been issued to Customer and that Customer has designated to participate in the Service.
- 2.7 **Debit Amount** means a dollar amount, selected by Customer, that applies to either (i) all forward or return debit items that are Customer Items and contained in an Outbound File or Customer Batch, or (ii) a single Customer Item.
- 2.8 **Field Value** means a value, selected by Customer, that corresponds to one of the batch header or batch control record fields that the Service offers as a criterion for notification.

APPENDIX F3: FEDACH® INFORMATION FILE SERVICE

1.0 FEDACH INFORMATION FILE SERVICE

- 1.1 The Reserve Banks offer a FedACH Information File Service (Service) that sends to a bank a daily information file, called a FedACH Information File, which is a copy of the ACH transaction detail information that was previously sent to the bank for posting.
- 1.2 The Reserve Banks identify a FedACH Information File as a Nonpayment File. A Customer that receives a Nonpayment File is solely responsible for ensuring that the receipt of the Nonpayment File does not result in double posting to its customer accounts. By receiving any Nonpayment Files from a Reserve Bank, the Customer agrees to indemnify, hold harmless, and defend a Reserve Bank against any claim, loss, liability, or expense (including reasonable attorneys' fees and expenses of litigation) incurred by the Reserve Bank in connection with its performance of the Service, except for any claim, loss, liability, or expense arising solely from the Reserve Bank's failure to exercise ordinary care or to act in good faith.
- 1.3 The bank may instruct the Reserve Banks using procedures established by the Reserve Banks specifically for the purposes of the Service, to send the FedACH Information File to Customer's sending point, receiving point, or Information Point via the Reserve Banks' ACH file delivery channels.

APPENDIX F4: FEDPAYMENTS® INSIGHTS SERVICE

1.0 GENERAL

1.1 The Reserve Banks offer a FedPayments Insights Service (Service) that presents information contained in certain ACH files through interactive reports. The Service enables the Customer to create customized reports that contain certain ACH data. The Service makes the reports available in electronic form via certain access channels provided by the Reserve Banks. This Appendix F4 and applicable sections of Appendix F provide the terms and conditions under which the Reserve Banks offer the Service.

2.0 DEFINITIONS

2.1 **Report** means an electronic record of information that (i) was extracted from information contained in payment file that was sent (or received) by Customer to (or from) a Reserve Bank under Operating Circular 4; (ii) is related to one or more ACH items, originators, or receivers; (iii) may include data visualizations and drill-down capabilities; and (iv) may also be available for download in electronic format.

3.0 THE SERVICE

3.1 The Reserve Banks make the Service accessible to authorized users designated by a Customer who possess credentials provided by the Reserve Bank for the purpose of using the Service. A Customer may control by credential the RTN(s) to which an authorized user may have access within the Service. A Customer may designate one or more RTNs in its account family to be included in the Service.

3.2 From certain access channels provided by the Reserve Banks, the Customer may access the Service to request and display Reports available within the Service. In some cases, the Customer may use the Service user interface to download a copy of the Report. The Service will not retain a Report, though the Customer may request that the Service regenerate the Report.

3.3 In carrying out the Service, the Reserve Banks will create and make available Reports requested by the Customer using procedures established by the Reserve Banks specifically for the purposes of the Service.

4.0 CUSTOMER RESPONSIBILITIES

4.1 Each Customer that wishes to obtain the Service shall have an authorized individual who is designated on a Customer's Official Authorization List complete and execute an agreement in a form provided by the Reserve Bank. A Customer that uses the Service agrees to the terms of this Appendix F4, regardless of whether the Customer submitted the required agreement.

4.2 Following procedures established by the Reserve Banks specifically for the purposes of the Service, the Customer will:

(a) select from a menu of available options the type(s) of Report(s) that the Service will generate for Customer;

APPENDIX G: CROSS-BORDER ITEMS

1. GENERAL

- a) The Reserve Banks process cross-border ACH items that are sent to the Reserve Bank as a part of the FedGlobal® ACH Payments Service in accordance with this Appendix, agreements between a Reserve Bank gateway operator and a foreign gateway operator, and the FedGlobal ACH Service Origination 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. 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) In addition to sending outbound cross-border ACH items through a foreign gateway operator to foreign banks for credit, and in limited circumstances, for debit to receivers' accounts, the Reserve Bank may send outbound cross-border ACH items through a foreign gateway operator to non-bank participants in a foreign clearing system that disburse payments to receivers.
- c) 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. Certain country specific technical details, such as formatting requirements, and return codes that are provided in the FedGlobal ACH Service Origination Manual also apply to cross-border items to the extent such technical details do not conflict with Operating Circular 4 and this Appendix.

2. ORIGINATING GATEWAY OPERATOR WARRANTIES

Notwithstanding paragraph 20.1(c) of Operating Circular 4, a Reserve Bank acting as a gateway operator for an outbound cross-border item warrants to the sending bank that it will:

- a) Process and settle cross-border items in accordance with Operating Circular 4, the applicable agreement between the Reserve Bank gateway operator and a foreign gateway operator, and applicable domestic laws and payment systems rules;
- b) Upon receiving written notice from the sending bank of a Third-Party Error, make reasonable efforts to assist the sending bank in resolving the Third-Party Error, including coordinating with and seeking to recover funds from its foreign

APPENDIX G1: FIXED TO FIXED FOREIGN EXCHANGE SERVICE

1.0 GENERAL

- 1.1 The Reserve Banks offer a Fixed to Fixed Foreign Exchange Service (“F3X Service”) that enables Customers to send zero-value messages in ACH format to the Reserve Banks for delivery to a Foreign Gateway Bank that has an agreement with the Reserve Banks for the handling of such messages. The messages are a component of a forward credit transaction, denominated in a foreign currency, for the benefit of a receiver in a foreign country. The other components of such a credit transaction are governed by other legal agreements to which the Reserve Banks are not parties.
- 1.2 The F3X Service is provided in accordance with the terms of this Appendix G1.
- 1.3 Fees for the F3X Service are determined by a fee schedule that the Reserve Banks publish from time to time. The Customer authorizes the Reserve Bank to collect such fees from the Customer’s designated settlement account.

2.0 DEFINITIONS

- 2.1 **Customer** means a bank that has signed up for the F3X service, following procedures established by the Reserve Bank, as amended from time to time.
- 2.2 **F3X Message** means a zero-value message sent to a Reserve Bank that is formatted as a zero-dollar ACH item according to the specifications set forth in the FedGlobal® ACH Service Origination Manual.
- 2.3 **FedGlobal ACH Service Origination Manual** means the Reserve Banks’ publication that specifies the procedural and technical requirements of the F3X Service, as amended from time to time.
- 2.4 **Foreign Gateway Bank** means a foreign financial institution that has entered into an agreement with the Reserve Bank to handle F3X Messages as set forth in section 4.1 of this Appendix.
- 2.5 **Customer’s Foreign Correspondent** means a foreign financial institution with which the Customer has made arrangements to fund a payment transaction associated with an F3X Message, as specified in section 7.1 of this Appendix.
- 2.6 **Foreign Receiving Institution** means an institution that the Customer identifies in an F3X message as the institution that should receive a payment instruction from the Foreign Gateway Bank for credit to the receiver designated by the originator of the payment.

APPENDIX H: EXCEPTION RESOLUTION SERVICE

1.0 GENERAL

The Exception Resolution Service (Service) is provided by the Reserve Banks through an application that permits a participating depository institution to handle certain kinds of ACH exceptions (the “ACH Exception Use Cases,” as defined below) that arise with respect to items originated or received through the FedACH service. The application permits a Requesting Bank to initiate an ACH Exception Use Case and a Responding Bank to receive, read, and respond to that ACH Exception Case.

The Reserve Bank provides the Service by hosting the underlying application and providing a Participating Bank electronic access to the Service through appropriate FedLine connections, or by providing the service offline as described in paragraph 6.0 below. The Service permits a Requesting Bank to initiate an ACH Exception Use Case in accordance with the Reserve Bank procedures, as set forth in the ACH Exception Resolution Service Quick Reference Guide (ERS QRG). The Service facilitates the validation of that ACH Exception Use Case, ensuring it relates to a FedACH item, and that both the Requesting Bank and the Responding Bank are Participating Banks under the Service. The Service also facilitates the information sharing about the ACH Exception Use Case, including reports regarding the Service.

This Appendix provides for the terms and conditions under which the Reserve Banks offer the Service.

2.0 DEFINITIONS

2.1 Participating Bank means a depository institution that the Reserve Bank has automatically enrolled in the Service, or that has opted to enroll in the Service.

A Participating Bank may be a Partial Service Participant, a Full Service Participant, or an Offline Service Participant.

With respect to any ACH Exception Use Case, a Participating Bank is either a Requesting Bank or a Responding Bank.

2.2 A Partial Service Participant means a depository institution that the Reserve Bank has automatically enrolled in the Service, as provided for in par. 4.1. A Partial Service Participant can act only as a Responding Bank by receiving, reading, and responding to an ACH Exception Use Case, request reports, as well as view a 13-month archive of all inbound and outbound messages regarding the Service, but cannot act as a Requesting Bank.

2.3 A Full Service Participant means a depository institution that agrees to become a Participating Bank, as provided for in par. 4.2. A Full Service Participant can initiate, receive, read, respond, close or cancel ACH Exception Use Cases, request reports, as well as view a 13-month archive of all inbound and outbound messages regarding the Service.

