



Electronic Payments Core of Knowledge

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# PARTICIPANT GUIDE

## **Signed, Sealed, Complaint: Considerations for your ACH Origination Agreement**

# Welcome to:

## **Signed, Sealed, Complaint: Considerations for your ACH Origination Agreement**

### Program Description

The *ACH Rules* specify the essential components of an Origination agreement and the parties with whom you should have these agreements. However, there is some room for interpretation regarding what should or should not be included. Join us as we examine the Rule requirements and best practices to identify additional areas of protection for you and your Originators.

AAP/APRP Credits: 1.2

### Objectives

- *ACH Rules*, Requirements & Guidelines
- UCC4A
- Considerations

### Ground Rules

Please keep the following ground rules in mind to help create a more effective learning experience for everyone. We will discuss additional participation instructions during the online session.

1. Log on to class at least 10 minutes before the scheduled start.
2. Turn off email and phones and clear other distractions away from your training area.
3. Participate and prepare to be called on by name. The online learning environment lends itself to interaction. Participation will keep you engaged and move the class along.
4. Raise your hand if you have an immediate question or comment. Asking questions helps other participants clarify or reinforce concepts.
5. Be patient in waiting for a response to your chat message.

### Technical Assistance

Your course invitation email contains step-by-step instructions for logging into this event. If you are having technical difficulty, please call 800.500.0100



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Direct Member

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**Signed, Sealed, Complaint: Considerations for your ACH Origination Agreement**  
Agenda

- 1 ACH Rules, Requirements & Guidelines
- 2 UCC4A
- 3 Considerations

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**ACH Rules,  
Requirements  
& Guidelines**

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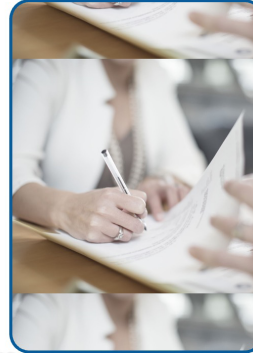
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### Subsection 2.2.2.1 – ODFI Must Enter Origination Agreement with Originator

#### Requirements

- Originator authorizes ODFI
- Originator must agree to be bound by the Rules
- Originator must agree not to violate U.S. Laws
- Restrictions on types of Entries allowed
- ODFI has the right to terminate agreement
- ODFI has the right to audit the Originator



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### Chapter 5 – Relationship With Originators, Third-Party Senders, or Sending Points



- ODFI warrants all entries it transmits on behalf of Originators
- ODFI should address specifics such as liability and accountability between the Originator and the ODFI
- Areas of the agreement could be superseded by federal or state law
- Disclosure requirements for wholesale credit entries transmitted



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## Chapter 6 – Warranties and Indemnifications

ODFI makes multiple warranties

Maximum timeframes of liability established for entries posting to non-consumer and consumer accounts

Warranties the ODFI makes should be a focus when developing origination agreements



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## Entries Are Properly Authorized



Places liability on the ODFI for proper authorizations

ODFI and their Originator may obtain more than what is prescribed as minimum requirements for an authorization

Consider other applicable laws and regulations which could affect requirements for authorizations



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## Terminating the Origination of Entries When Appropriate

The originator's authorization and agreement have not been revoked or terminated

ODFI, TPS, or Originator do not have actual knowledge of the Receiver's revocation of the authorization or termination of the agreement



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## Ensure Entry Complies with the Rules



Rules require proper use of SEC code based on authorization entry

Address SEC code usage within agreements



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## Ensuring Originator is Permitted to Originate Entries

Must not transmit entries for any Originator that appears on a suspended list

Nacha provides a list of suspended Originators from time to time



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## Entries Contain Appropriate Information



Contains correct account number as well as other pertinent information necessary for the RDFI to properly post

Correct entries must include information necessary to be reflected on account holder statements



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## Transmits Credit Entries into the ACH Network in a Timely Manner

ODFI is responsible for ensuring entries are submitted into the network timely



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## Debit Entries Satisfy an Obligation or Correct an Error

For an amount specified by the Receiver and Originator

Debit must be due on the settlement date

Debit could also be transmitted to correct an erroneous credit entry



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## Banking Information is Securely Transmitted



All banking information is required to be transmitted in accordance with the ACH Data Security requirements

Data Security Requirements can be found in Chapter 4



## Bears Responsibility for Entries Transmitted Through Sending Points

ODFI is responsible for all entries bearing its routing number

ODFI bears this responsibility regardless of whether the ODFI authorized the Sending Point to transmit the entries



## Complies with Annual Audit Requirement

**Must conduct or have conducted annual audit compliant with the requirements outlined within the rules by December 31st annually**

**ODFI warrants they have conducted an audit**

**ODFI has the right to audit Originators for compliance**



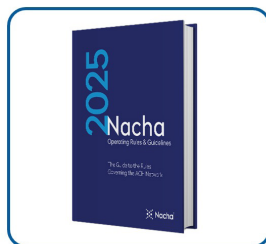
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## Ensure Compliance With Nacha Operating Rules



**ODFI must comply with the ACH Rules**

**An ODFI's Third-Party Service Provider must also comply with the ACH Rules**



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## Goods and Services

ODFI's warranties do not apply to goods and services provided by the Originator to the Receiver

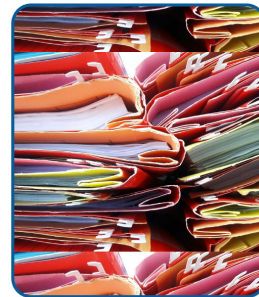


## Appendix C – OG 346

Addresses 32 issues to consider in your origination agreement

Identifies what to consider for consumer credit or debit originations

Identifies what to consider for corporate credit or debit originations



**UCC 4A**

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**UCC4A**

Governs “corporate wholesale credit entries,” including wire transfers and CCD/CTX credit entries

Choice of law

Defines commercially reasonable security procedures

Applies to ALL SEC codes

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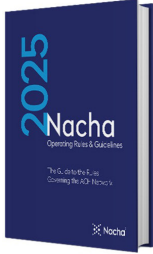
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### UCC 4A Terms = ACH Terms

Bank	→	ODFI
Customer	→	Originator
Payment Order	→	ACH File
Sender	→	Originator
Receiving Bank	→	ODFI



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### UCC 4A-202(b)

**Authorized & Verified Payment Orders**

(b) If a bank and its customer have agreed that the authenticity of payment orders issued to the bank in the name of the customer as sender will be verified pursuant to a security procedure, a payment order received by the receiving bank is effective as the order of the customer, whether or not authorized



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## Translation in Layman Terms

ODFI and Originator to agree on:

Delivery method of ACH file to ODFI

Security procedure used by ODFI to verify authenticity



Passes security procedure, then deemed effective (i.e., valid) whether truly authorized by Originator or not



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## UCC 4A-202(b)

Authorized & Verified Payment Orders

If (i) the security procedure is a commercially reasonable method of providing security against unauthorized payment orders, and (ii) the bank proves that it accepted the payment order in good faith and in compliance with the security procedure and any written agreement or instruction of the customer restricting acceptance of payment orders issued in the name of the customer



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## Translation in Layman Terms

File is effective IF:

ODFI's security procedure is commercially reasonable **AND**

ODFI accepted the file in good faith and in compliance with agreed-upon security procedure



## UCC 4A: Commercially Reasonable Considerations

Size of financial institution

Size of Originator

Type of origination activity

SEC code

Frequency of transactions

Nature of business



Similarly situated Originators doing similarly related business



### UCC 4A Key Concepts

**Authority** for making a payment order (i.e., initiating ACH file)

Does person initiating file have authority to do so?

Authorized user?

**Authorized** ACH transfer is enforceable against Originator



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### UCC 4A Key Concepts

**Unauthorized** ACH transfer is enforceable against Originator **IF**:

Transfer was verified pursuant to an agreed-upon security procedure,

Security procedure is commercially reasonable **AND**

ODFI accepted the transfer in good faith and in compliance with the security procedure



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### UCC 4A: Items That **Cannot** Be Altered By Origination Agreement

ODFI's obligation to transmit all entries it accepts

ODFI acceptance occurs when the entry is transmitted to the ACH Operator

ODFI's obligation to pay the Originator or Receiver interest on any entries delayed or not transmitted



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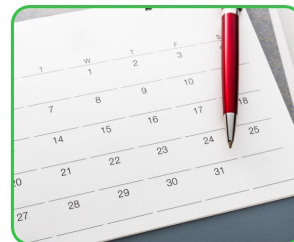
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### UCC 4A: Items That **Cannot** Be Altered By Origination Agreement

Originator's obligation to pay ODFI for entries properly transmitted

ODFI's requirement to settle "on-us" entries on the Settlement Date



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### UCC 4A: Items That **Cannot** Be Altered By Origination Agreement

ODFI's liability for any error(s) it makes, such as:

Duplicating entries

Transmitting amounts greater or less than intended

Transmitting entries to a Receiver other than intended



ODFI's liability for not complying with agreed-upon commercially reasonable security procedures



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### UCC 4A: Items That **May** Be Altered By Origination Agreement

ODFI has no obligation, except under agreement, to accept an entry

Notice of rejected entries must be given to the Originator by a reasonable means

Cancellation, withdrawal or amendment of ACH entries after acceptance by ODFI

*ACH Rules* provide that entries cannot be withdrawn, canceled or otherwise amended after presentation to the ACH Operator; *ACH Rules* supersede UCC 4A



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## UCC 4A: Items That **May Be Altered By Origination Agreement**

Originator's obligation to inform ODFI of any errors in entries transmitted within 90 days

Choice of law

ACH Rules selected State of New York



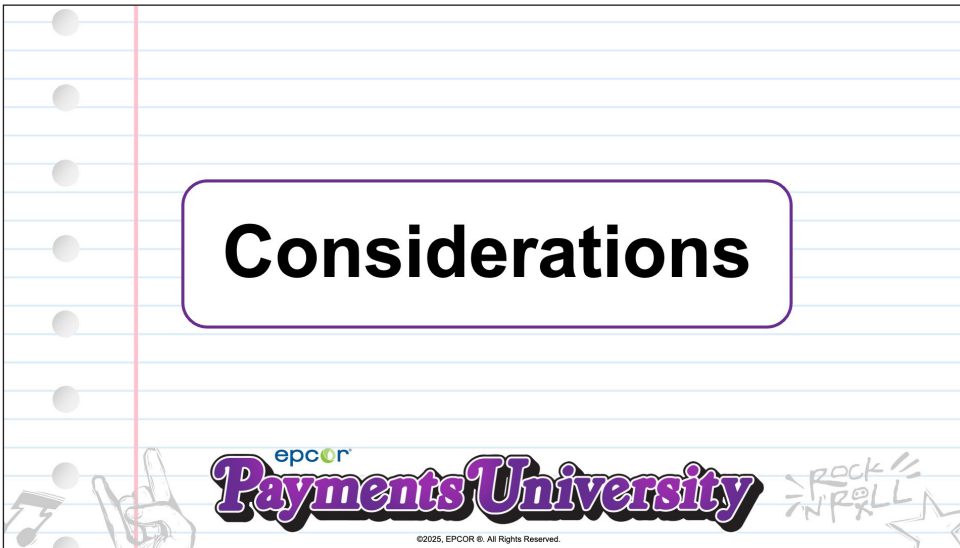
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## Considerations



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## Considerations for Your Origination Agreement

**Listing of other considerations in your handout**

**Overall goal should be clear expectations**

**Review with legal council**




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### Other Considerations for Origination Agreements

Define state for UCC 4A	Funds Availability	Risk Management Training
Authorization Language	When significant changes should be communicated	Variation from established security procedures
OFAC scans	NOCs, Returns, Proof of Authorization Requests	Exposure Limits
File delivery	Use of Third-Party Service Providers by Originator	Regulation E requirements for consumer entries
Reserve Accounts	Originator Education	Communication Requirements
Processing deadlines	Special types of Entries	Standing Authorizations
Record Retention Requirements	Prefunding	Similarly Authenticated or Electronic Signatures




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# Thank You for Attending!

EPCOR is your best resource for:

## Expertise—

Payments professionals are just a phone call away to help you resolve issues and understand the complex rules and regulations regarding all types of electronic payments.

## Diverse Programs—

More than just the *ACH Rules*, you get a variety of programs on fraud, risk, audits and more to protect your organization against loss and penalty.

## Keeping Pace with the Evolving Payment Landscape—

You have a voice in industry issues through EPCOR and you stay connected with industry initiatives that influence policy.

**Visit [epcor.org](https://epcor.org) for a complete list of classroom and online learning events.**

# CERTIFICATE OF COMPLETION

This certificate is awarded to:

on

In completion of:

## **Signed, Sealed, Complaint: Considerations for your ACH Origination Agreement**

This course is worth 1.2 AAP/APRP  
continuing education credits.



James Carrick  
Vice President, Education, EPCOR

