



# Networking Bulletin

December 2010

## Automated Clearing House (ACH) System

### Introduction

The Financial Crimes Enforcement Network (FinCEN) has been receiving an increasing number of inquiries from the law enforcement community on the operations and potential criminal misuse of Automated Clearing House (ACH) payments. This latest FinCEN Informational Networking Bulletin is, therefore, intended to assist law enforcement officials in their financial investigations by providing a background familiarization with ACH services and operations, transaction flows, and related records. Sample transactions and accompanying illustrations are provided throughout the Bulletin. As with other FinCEN Networking Bulletins, the intent is not only to offer FinCEN's current insights, but also to stimulate, solicit, and network highly valued field based observations from the audience. Along these lines, we welcome the opportunity to obtain and network your additional input (see feedback section).

### Overview of the ACH System

The Automated Clearing House (ACH) is a nationwide batch-oriented electronic funds transfer system that provides for the distribution and settlement of electronic credits and debits among financial institutions. The ACH network was initially developed in the early 1970s in response to the tremendous growth of check payments and the many technological advances in the mid-twentieth century. It functions as an efficient, electronic alternative to checks.

The ACH system provides a low cost clearing and settlement system for high volume, non-urgent funds transfers. It is a batch-processing store and forward system. Transactions received by the financial institution during the day are stored and processed later in a batch mode. Rather than sending each payment separately, ACH transactions are accumulated and sorted by destination for transmission during a predetermined time period. Typical ACH settlement is one or two days after processing.



ACH settlement is the actual transfer of the value of funds between financial institutions to complete the payment instruction of an ACH entry. The Federal Reserve provides settlement services for all ACH entries processed by the two ACH operators: FedACH (operated by the Federal Reserve itself) and EPN (a private sector operator.) The Federal Reserve receives the net credit and debit positions of financial institutions and applies those credits or debits to the reserve accounts of the financial institutions (or their correspondent banks) that are maintained on the books of the Federal Reserve.

Initially, the ACH system was used for recurring funds transfers between known counterparties for payments such as payroll direct deposit. The ACH system now supports an increasing number of one-time transfers, such as online debits (Internet Initiated Entries), and has also expanded to international ACH payments. The ACH system supports a wide variety of corporate, individual, and government payment needs, as delineated in Part II below.

The National Automated Clearing House Association (NACHA), a consortium of individual financial institutions and regional payment associations, establishes the rules under which the ACH system operates and the special terms used to describe ACH operations. (Terms having special meaning under ACH rules, such as "Originator" and "Receiver," are explained in Part III below). NACHA periodically updates the ACH operating rules to provide financial institutions with new ACH options and to address perceived problems.

## ACH Service Options

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The following are various financial services ("options") for which ACH is commonly used for:

ACH credits:

- Direct Deposit of payroll, Social Security and other government benefits, and tax refunds
- Customer-Initiated Transactions, such as bill payments

Consumer initiated ACH debits:

- Direct Payment of consumer bills such as mortgages, loans, utility bills and insurance premiums, installment payments, membership dues, or other recurring obligations
- E-checks (check conversion)
- Internet and telephone payments (ACH debits for online or over-the-phone purchases)<sup>1</sup>

Corporate initiated ACH applications:

- Federal, state and local tax payments
- Business-to-business payments, allowing companies to exchange both data and funds with trading partners, facilitating an automated process of updating their accounts receivable and accounts payable systems

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1. NACHA estimates that the majority of Internet-initiated payments are used to pay bills via companies' or billing services' web sites.



### *Direct Deposit*

Direct Deposit is used for the disbursement of funds to a consumer's account. Use of this option as a form of payroll is the most widely used direct deposit service option. The service is also used for other recurring or one-time deposits, such as Social Security benefit payments, dividends, pension payments, sales commissions, expense reimbursements and child support payments. There are numerous benefits to Direct Deposit. First, it streamlines account reconciliation by eliminating the need to wait for check processing and clearance of checks due to the funds being automatically deposited. It also allows users to minimize the storage of check stock, with its attendant security costs. Third, Direct Deposit imposes little or no cost to the beneficiary.

### *Direct Payment*

Direct Payment option provides the ability to collect funds from consumer accounts. Companies elect this option to automate bill payment entries. This option is generally used for recurring bills, both regular fixed amounts and varying amounts (such as utility payments). Direct Payment examples might include insurance premiums, utility bills, mortgage payments, subscription membership, monthly rent and tuition payments. Benefits of Direct Payment include that funds are settled on scheduled dates such as the billing due date. Check handling and manual payment processing are eliminated. The cost associated with printing and mailing monthly bills is reduced or eliminated. Direct Payment also reduces the possibility of insufficient funds.

### *Cash Concentration*

Cash Concentration option is generally used by companies operating branches or sales outlets and local governments to accumulate funds rapidly into a central corporate account. This option can be used in place of depository transfer checks and wire transfers. Cash Concentration benefits include that funds are collected on predetermined dates. Cash flow and funds management are improved. The automated transactions also reduce the need for wire transfers.

### *Corporate Payments*

The Corporate Payment option is used by companies to collect and disperse funds among themselves. Businesses use the option to pay one another for goods and/or services. The benefits of corporate payments include that corporations may receive payment discounts for predetermined payment dates. These payments may also reduce internal processing costs and service charges as well as providing timely payments.

### *Customer Initiated Entries (CIE)*

A Customer Initiated Entry is typically a bill payment. This option provides the customer the ability to initiate a non-scheduled payment to a company. The payment information is submitted by the consumer to the Originating Depository Financial Institution, manually or through a mechanical device such as a telephone, ATM, or computer.



### *Accounts Receivable Entries (ARC)*

This entry enables Originators to convert an eligible consumer check received in the mail or at a drop box location to a Single-Entry ACH debit and to collect funds for the payment of goods or services. The check is used as a source document to collect the Receiver's routing number, account number, check serial number, and dollar amount for the transaction.

### *Internet Initiated Entry (WEB)*

This entry is used for the origination of debit entries (either recurring or Single-Entry) to a consumer's account based on an authorization that the consumer provides via the Internet. The requirements associated with this entry help to address unique risk issues inherent to the Internet payment environment for added security procedures and obligations. This code will also allow for authorization and initiation via a wireless device, such as a mobile phone, effective January 1, 2011.

### *Re-presented Check Entries (RCK)*

A Re-presented check entry is an ACH debit option that is used by Originator to collect funds for a paper check that has been processed through the check collection system and returned due to insufficient or uncollected funds. A check re-presented through ACH can improve collection percentages and can aid in lowering collection costs.

### *Point of Purchase Entries (POP)*

The Point of Purchase entry is used by merchants, billers, etc. as a method of payment for the in-person purchase of goods and/or services by customers. This option is

initiated by the Originator based on a source document (check) obtained from the customer at the point of sale. The check is scanned by a reading device which captures the MICR (Magnetic Ink Character Recognition) line, and then the check is voided and returned to the customer, along with a receipt for the customer to sign. The information captured from the MICR line, along with the dollar amount, create an electronic ACH entry. The Point of Purchase option provides a faster collection of funds, lower costs, and faster notification of returned entries.

## How ACH Works

A basic ACH transaction involves five parties: the Originator, the Originator's Financial Institution, the ACH Operator, the Receiver's Financial Institution, and the Receiver. Familiarity with these parties is essential in comprehending ACH transactions.

*Please also see Appendix for a comprehensive list and definitions of commonly used ACH terms.*

**Originator:** This party is the entity that agrees to initiate ACH entries into the payment system according to an arrangement with a Receiver. The Originator is usually a company directing a transfer of funds to or from a consumer's or another company's account, but also may be an individual initiating a funds transfer activity from his or her own account, as in a Customer Initiated Entry.

**Originating Depository Financial Institution**

**(ODFI):** This party is the institution that receives payment instructions from Originators and forwards the entries to the ACH Operator.<sup>2</sup>

**ACH Operator:** The ACH Operator is the central clearing facility operated by a private organization or a Federal Reserve Bank (FRB) on behalf of DFIs, to or from which Participating DFIs transmit or receive ACH entries. Currently, there are two ACH Operators: Electronic Payments Network (EPN) and the Federal Reserve (FedACH).

**Receiving Depository Financial Institution**

**(RDFI):** This party is the DFI that receives ACH entries from the ACH Operator and posts the entries to the accounts of its depositors (Receivers).

**Receiver:** A Receiver is a natural person or an organization that has authorized an Originator to initiate an ACH entry (credit or debit) to the Receiver's account with the RDFI. A Receiver may be either a company or a consumer, depending on the type of transaction.

In ACH terminology, Originator and Receiver refer to the participants that initiate and receive the ACH entries rather than the funds. Unlike a check, which is a "debit" instrument, an ACH entry may be either a credit or a

*It should also be noted that in some instances, an Originator, ODFI, or RDFI may choose to use the services of a Third-Party Service Provider for all or part of the process of handling ACH entries. A Third-Party Service Provider is an entity other than the Originator, ODFI, or RDFI that performs any functions on behalf of the Originator, ODFI, or RDFI with respect to the processing of ACH entries. A function of ACH processing can include the creation of ACH files on behalf of an Originator or ODFI, or acting as a Sending Point or Receiving Point on behalf of an ODFI or RDFI, respectively. As the ACH Network continues to evolve, Third-Party Service Providers have taken on larger and more complex roles in the processing of ACH transactions.*

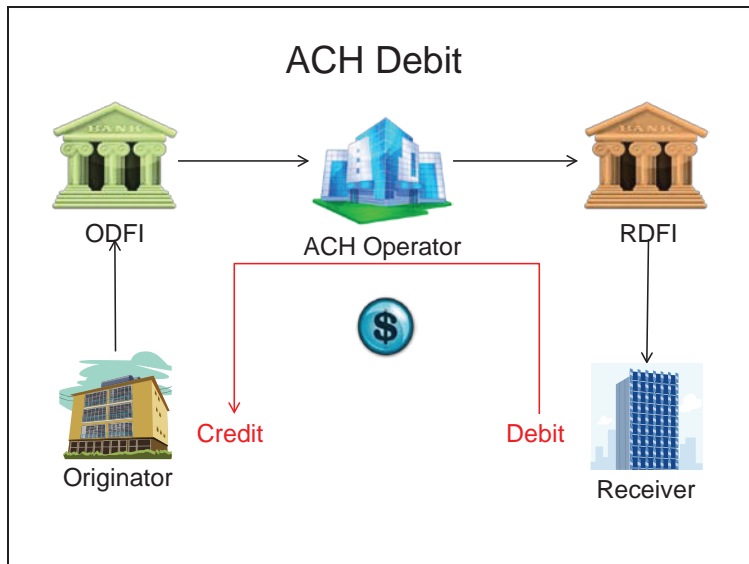
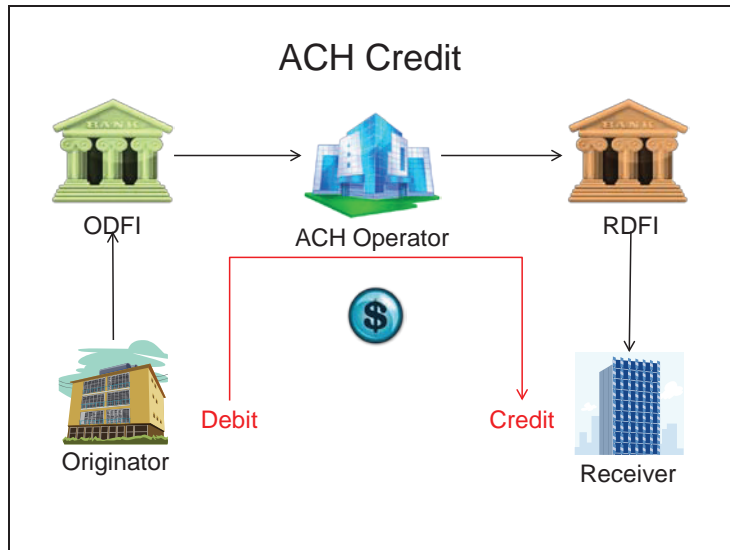
debit entry. By examining *what happens to the Receiver's account*, one can distinguish the difference between an ACH credit and an ACH debit transaction. If the Receiver's account is debited, then the entry is an ACH debit. If the Receiver's account is credited, then the entry is an ACH credit. Conversely, the offset to an ACH debit is a credit to the Originator's account and the offset to an ACH credit is a debit to the Originator's account.

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2. A Depository Financial Institution (DFI) may participate in the ACH system as a Receiving Depository Financial Institution (RDFI) without acting as an ODFI; however, if a DFI chooses to originate ACH entries, it must also agree to act as an RDFI).



When an Originator initiates a transfer to move funds into a Receiver's account, it is called a credit. In an ACH debit, funds flow in the opposite direction.





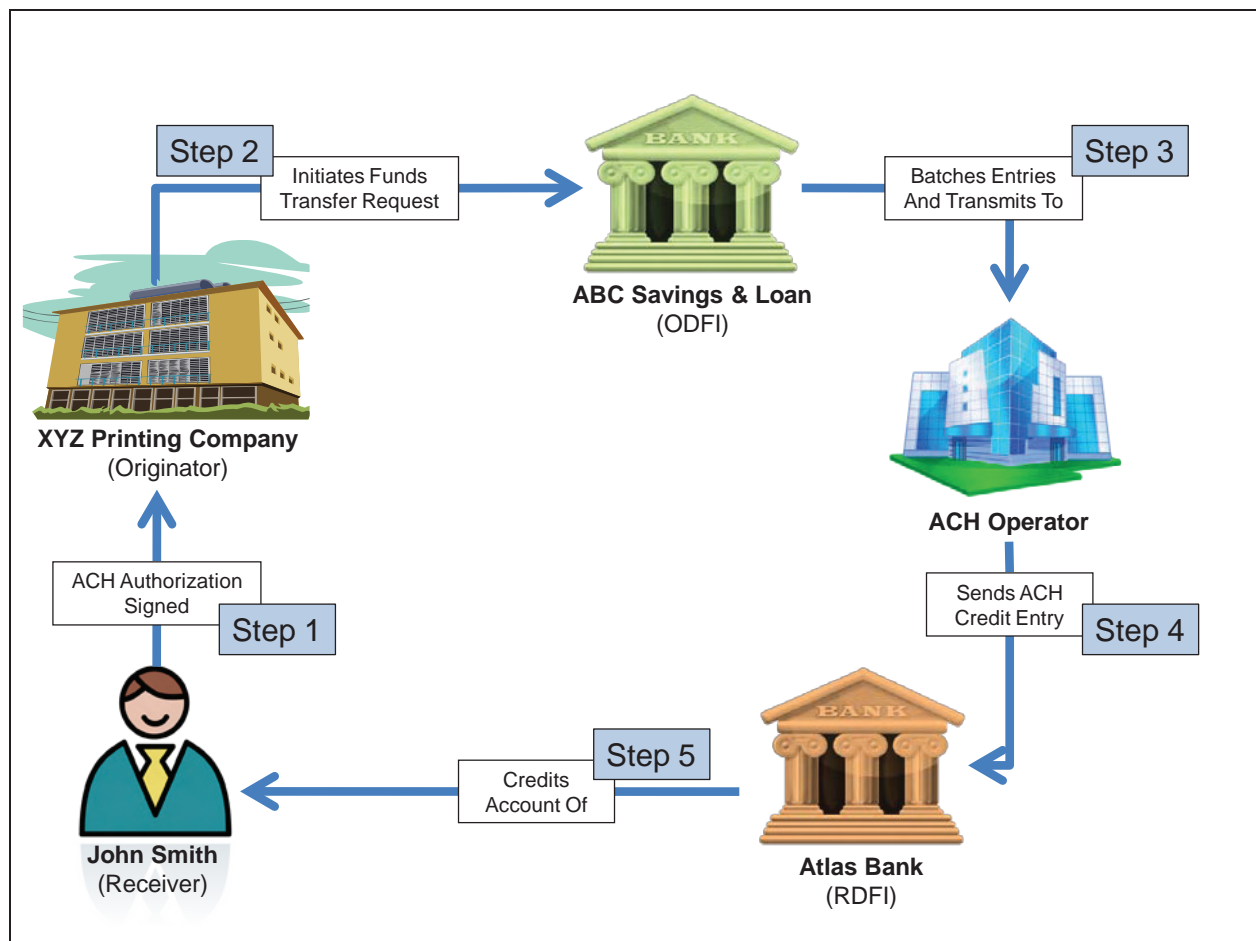
## Sample Credit & Debit Transaction Flows

### ACH Credit

An ACH entry, which is always initiated by the Originator, may be either a debit or a credit entry. As mentioned above, when the Receiver's account is credited and the Originator's account is debited, the entry is termed an ACH credit.

One of the most common types of ACH credit transactions is a payroll direct deposit. Other ACH credit transactions include: Social Security benefit payments, government and private pensions, annuities, dividends, interest payments, customer initiated bill payments (phone, electric, etc.), tax payments, government vendor payments, and corporate-to corporate payments.

The following graphic illustration depicts the transaction flow of an ACH credit.



In this scenario, John Smith is a new employee for XYZ Printing Company which pays its employees by ACH credit. An ACH credit entry is set up when an Originator, XYZ Printing Company, initiates a transfer to move funds into a Receiver's account, John Smith's account.



**Step 1:** John Smith, the Receiver, has authorized his employer, XYZ Printing Company, in writing, to credit his bank account for his payroll via an ACH transaction. Among the basic information John Smith must include in his authorization is the name of his Financial Institution (FI), his FI's ABA number (Routing Number), his account number at the FI and the type of account (e.g. checking or savings).

**Step 2:** XYZ Printing Company compiles the remaining identifying data to initiate the payroll entry for John Smith. This information would include the specific date for the credit to his account (Effective Entry Date,) as well as the specific amount of his salary. Upon completion of the payroll file of similar data for all of its employees, XYZ Company transmits a "batched" payroll file (consisting of individual payment entries) electronically to its Financial Institution – ABC Savings and Loan - which is the Originator's Financial Institution (ODFI).

Below is an example of an ACH file data prepared by XYZ Printing (and ultimately received by Atlas Bank) for John Smith's payroll. The file would contain an Effective Entry Date along with similar entries for other employees being paid:

NAME:	Smith, John
Employee ID:	123-45-5789
CREDIT:	\$2,000.00
FI:	Atlas Bank
RTN:	2143343338 <sup>3</sup>
ACCT. #:	12-345 910 (checking)

**Step 3:** ABC Savings & Loan (serving as the ODFI) edits the file and ensures that there are no data error problems prior to transmitting the file to an ACH Operator.<sup>4</sup> Once received by the ACH Operator, each entry is sorted and batched by ABA numbers and put into RDFI-specific files. The ACH Operator will determine the Settlement Date based on the Effective Entry Date entered by the Originator (XYZ Printing). All Settlement figures at the end of the processing day will be transmitted by the ACH Operators to the RDFIs/ODFIs in a Statement of Activity, or Advice file, and the figures are also transmitted to the Federal Reserve prior to Settlement time.

**Step 4:** Atlas Bank (serving as the RDFI) then receives its ACH file(s) electronically from the ACH Operator.

**Step 5:** Atlas Bank disaggregates the "batch" entries it receives from the ACH Operator and then posts the specific payroll amount for John Smith to his account (as an ACH credit) on the Settlement Date.

*On the Settlement Date in the morning, ABC Savings & Loan is debited on its Fed account and Atlas Bank is credited on its Fed account for this entry. (ABC Savings and Loan, in its ACH ODFI-Originator agreement with XYZ Printing, specifies the timing for settlement between them for the payroll entries).*

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3. There would also be a Trace Number for the entry containing 15 digits, the first eight of these come from the financial institution's Routing Number.

4. In the case of a first time payroll credit for John Smith, a non-dollar transaction, known as a Pre-notification entry, would likely be sent to ensure the actual payroll credit would be transmitted correctly.



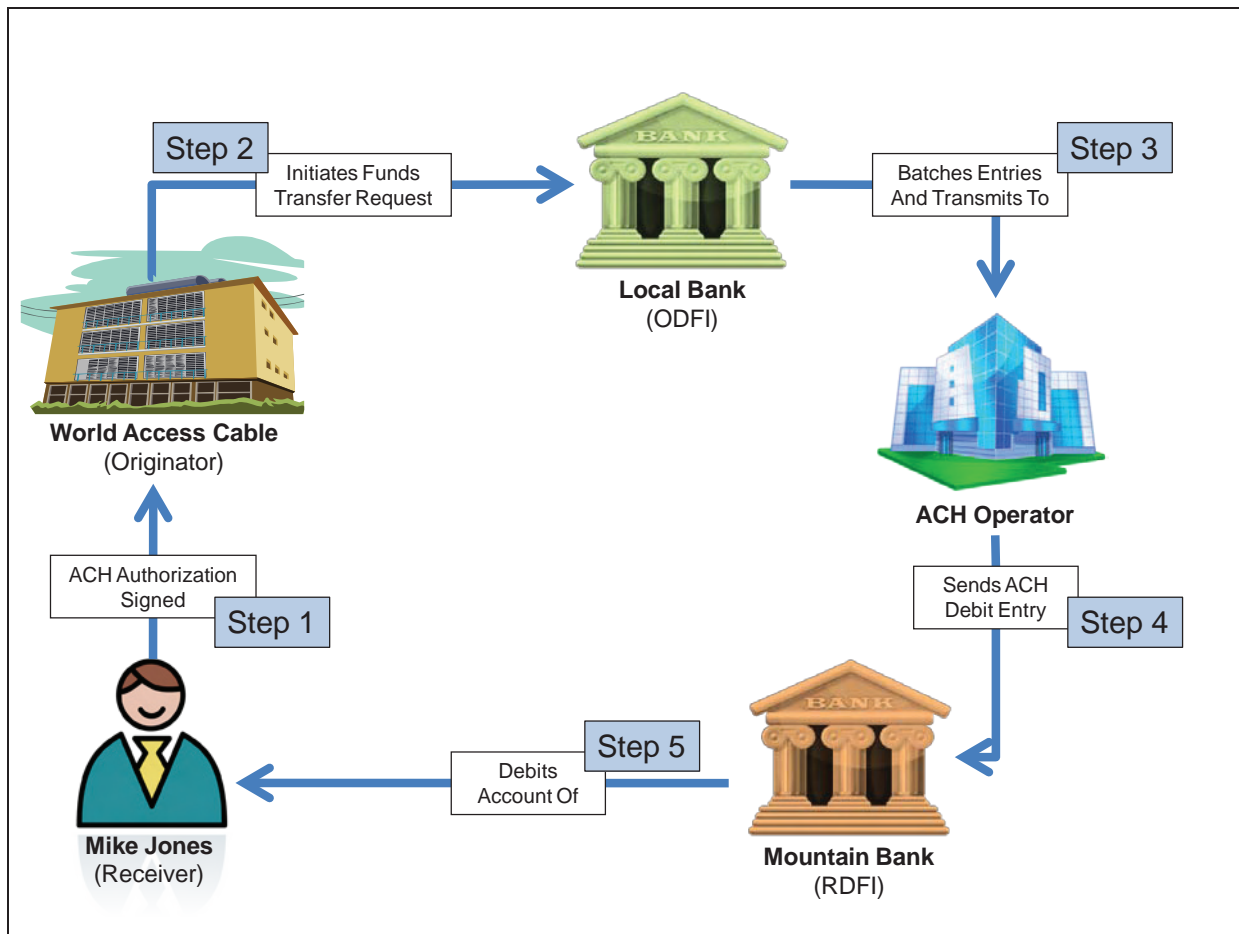


### ACH Debit

In an ACH debit transaction, *funds flow in the opposite direction*. Funds are collected from a Receiver's account and transferred to an Originator's account, even though the Originator initiates the entry. The ACH processing flow remains the same.

Consumer ACH debit acceptance is highest in the area of pre-authorized transfers involving regular, recurring payments, such as mortgage payments, installment loans and insurance premiums. Many corporations also use ACH debits to consolidate funds deposited in outlying divisions by operating branches or subsidiaries.

The graphic in the following example illustrates the transaction flow of an ACH Debit.



In this example, cable television customer Mike Jones signed an agreement with his cable company to have his monthly cable fee debited from his account and credited to the account of his cable company, World Access Cable. World Access Cable is the Originator because it is initiating the ACH transaction into the ACH network. Mike Jones is the Receiver because he is receiving the ACH debit transaction.



**Step 1:** An ACH debit authorization was completed by the Receiver (Mike Jones) to pay his monthly bill. In this example, the Originator of the preauthorized debit is World Access Cable. Mike's preauthorized debit is \$29.95 per month.

**Step 2:** On the same date each month, World Access Cable (as the Originator) initiates a funds transfer request by transmitting an ACH debit file to the Originating Financial Institution, ODFI (Local Bank) which includes the debit entry to Mike Jones' account at his Receiving Financial Institution, RDFI (Mountain Bank). Mike Jones will be the Receiver of the monthly \$29.95 debit.

The following is an example of an ACH file prepared by World Access Cable for Mike Jones' cable bill. The file contains a billing/debiting date (Effective Entry Date) and also similar entries for other members being billed/debited:

NAME:	Jones, Mike
BILLING REFERENCE	
ACCT:	1234
DEBIT:	\$29.95
FI:	Mountain Bank
RTN:	567891010
ACCT. #:	87-654 321 (checking)

**Step 3:** Local Bank (serving as the ODFI) edits the file and ensures that there are no data error problems prior to transmitting the file to an ACH operator.<sup>5</sup> Once received by the ACH Operator, each file entry submitted is sorted and batched by ABA numbers and put into RDFI-specific files. The ACH Operator will determine the Settlement Date based on the Effective Entry

Date entered by the Originator (World Access Cable.) All Settlement figures at the end of the processing day will be transmitted by the ACH Operators to the RDFIs/ODFIs in a Statement of Activity, or Advice files, and the Settlement figures are also transmitted to the Federal Reserve prior to the Settlement time.

**Step 4:** Mountain Bank (RDFI), Mike Jones' bank, receives the file electronically from the ACH Operator.

**Step 5:** The RDFI (Mountain Bank) disaggregates the batch entries it receives from the ACH Operator and then posts the debit of \$29.95 to Mike Jones' account for his monthly cable bill on the Settlement Date.

*On the Settlement Date in the morning, Mountain Bank (the RDFI) is debited on its Fed account and Local Bank (the ODFI) is credited on its Fed account for this entry. (Local Bank, in its ACH ODFI-Originator agreement with World Access Cable, specifies the timing for settlement for the debit entries between them).*

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5. In the case of a first time billing debit for Mike Jones, a non-dollar transaction, known as a pre-notification entry, would likely be sent to ensure the actual payroll credit would be transmitted correctly.



## Applications (Points of Entry) used by Customers to Originate ACH transactions

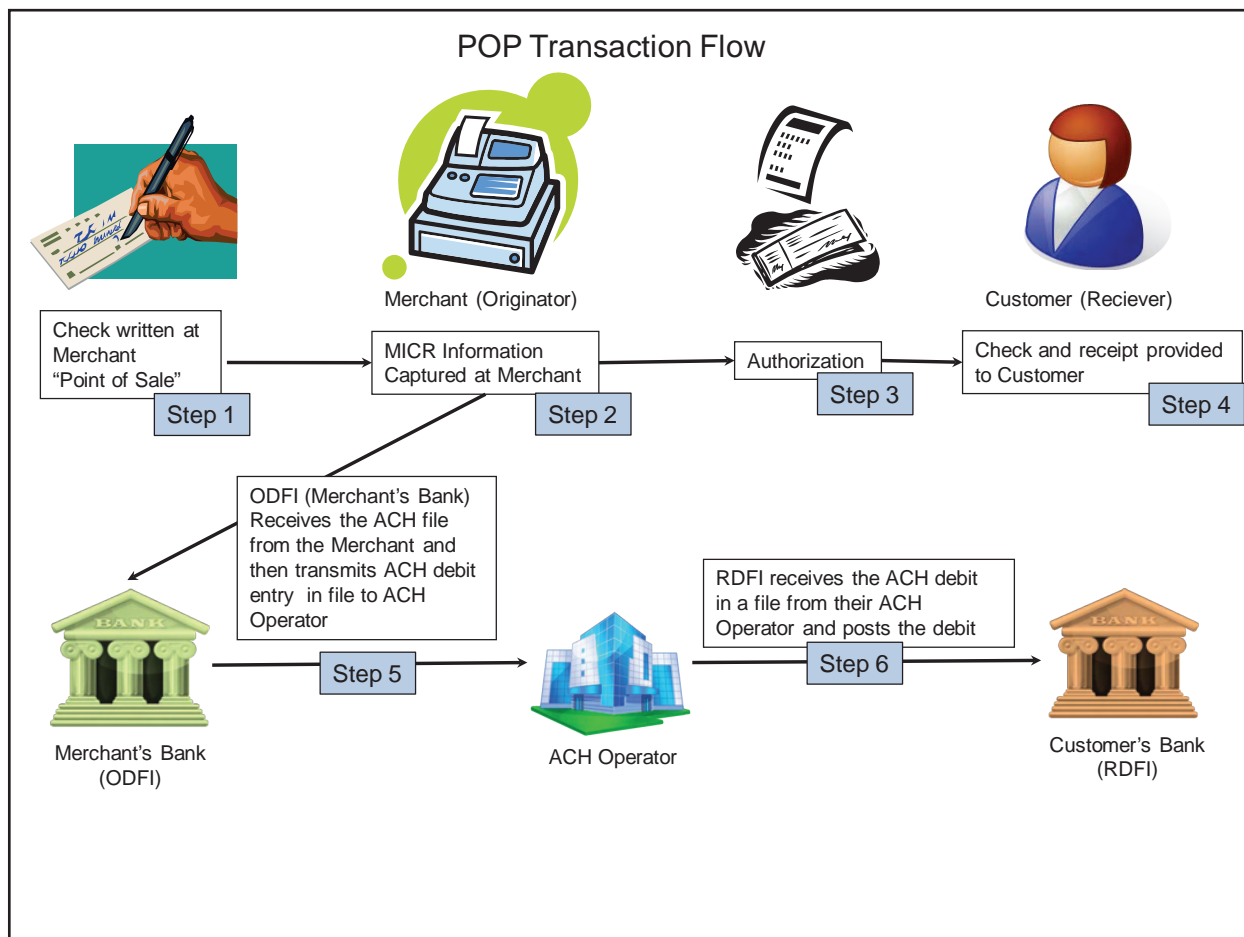
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It is helpful for investigative officials to also understand the various ways ACH is accessed for use in electronic transactions. We will, therefore, take a close look at some samples which explain the primary ACH points of entry for ACH debits and credits: i.e., the Point of Purchase Entry, Internet Initiated Entry, Telephone Initiated Entry, and Prearranged Payment and Deposit Entry. Each one of these “points of entry” is addressed in detail below, along with related sample transaction processing flows, to provide investigative officials with a better understanding of all stages of the ACH process.

### *Point of Purchase Entry (POP)*

Originators use POP as a method of payment for the in-person purchase of goods or services by consumers. These are single entry ACH debits that are based on written authorization and account information obtained from a customer’s check at the point of purchase. The check (referred to as a *source document*) is used to collect the Receiver’s routing number, account number and check serial number that will be used to generate the debit entry to the Receiver’s account. After scanning, the source document is voided by the merchant and returned to the Receiver and the Receiver signs a receipt. The process is discussed in detail below.

In this example, the Customer (Receiver) gives a check to a Merchant (Originator) for purchase of merchandise. The Merchant then converts the check into an electronic ACH payment for processing. The Merchant is the Originator because the Merchant is initiating the transaction, while the Customer is the Receiver because the Customer will be receiving the ACH debit.



**Step 1:** A check is provided by the customer for a purchase at a "Point of Sale" merchant location.

**Step 2:** The MICR (Magnetic Ink Character Recognition) is captured from the check at the merchant location, in order for the check to be converted to an ACH debit entry. Information captured is the Routing Number of the Customer's financial institution, the Customer's account number, and the check serial number.

**Step 3:** The Customer signs an agreement that authorizes the Merchant to convert the check into an ACH debit entry.

**Step 4:** The original check (stamped "VOID") and a copy of the receipt are given to the customer after the ACH debit has been entered into the Merchant's system.

**Step 5:** The Merchant transmits an ACH file to its ODFI, which then transmits the Merchant's ACH batch entries along with batches from other Originators to the ACH Operator for processing.

**Step 6:** The ACH Operator processes the ACH entries and makes files available for RDFIs to receive. The Customer's Bank (the RDFI) receives the file and posts the debit to the Customer's account on the Settlement Date, at which time it also settles with its Fed account.

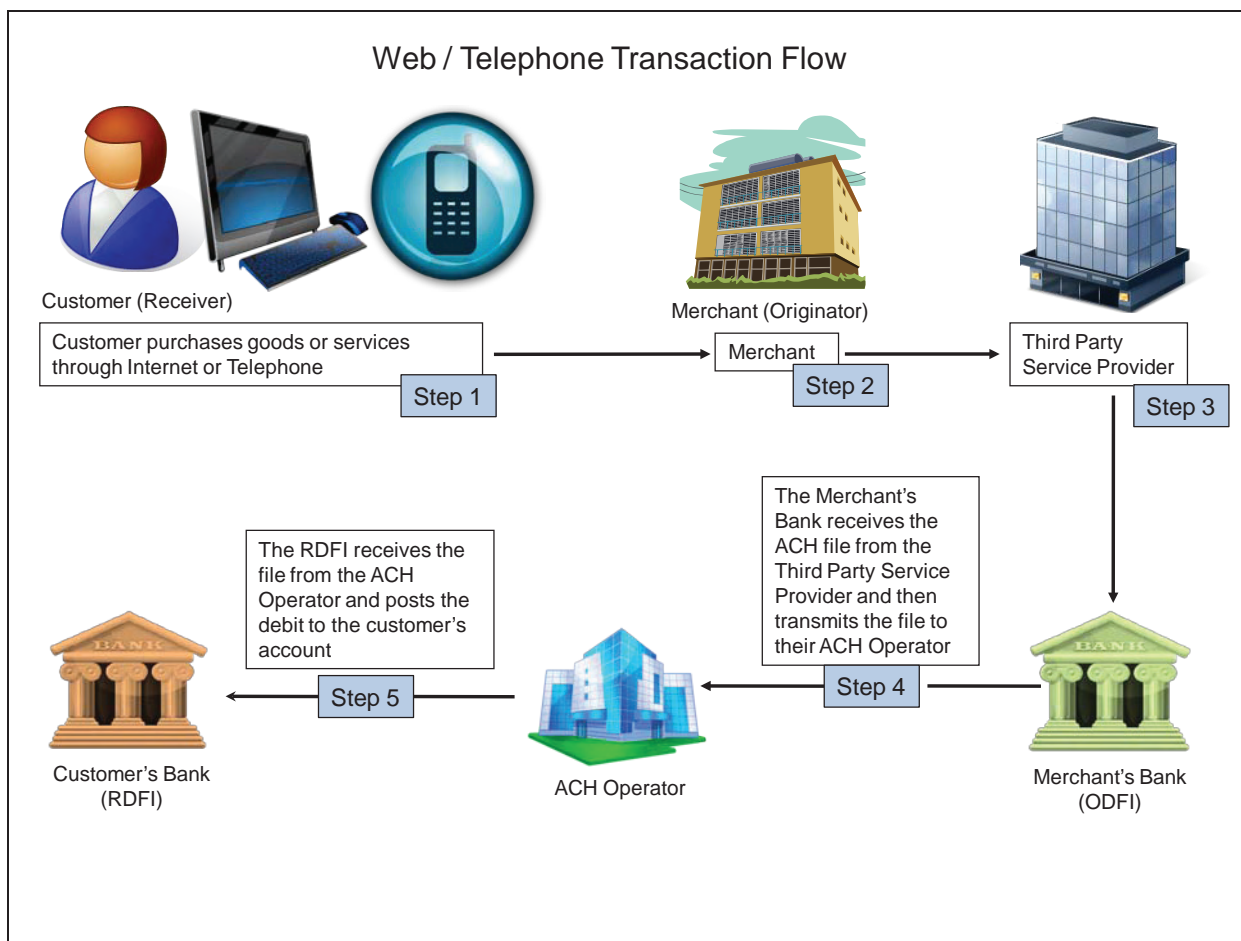


### Internet Initiated Entry (WEB) / Telephone Initiated Entry (TEL)

In this type of entry, authorization is obtained from the customer via the Internet or directly over the telephone for a transaction. The process is discussed in detail below.

In this example, the Customer (Receiver), has purchased goods or services through the Internet or phone and has provided the

Merchant (Originator) with the required information to create an ACH debit. In this scenario, the Merchant is considered the Originator because the Merchant is initiating the banking transaction, and the Customer is the Receiver because the Customer is receiving the ACH account debit. Both Internet Initiated Entry (WEB) and Telephone Initiated Entry (TEL) transactions are set up to be used for consumer debits only.





**Step 1:** The Customer (Receiver) purchases goods or services through the Internet or phone. There are specific authorization and authentication requirements provided in the ACH Rules for these transactions. The Customer provides the information needed to conduct an ACH transaction: name, routing number, account number, type of account, etc.

**Step 2:** The merchant (Originator) collects the information provided by the customer and communicates it to the Third Party Service Provider. The Third Party Service Provider, an optional participant, is a company or entity that is creating ACH transactions on behalf of merchants (Originators).

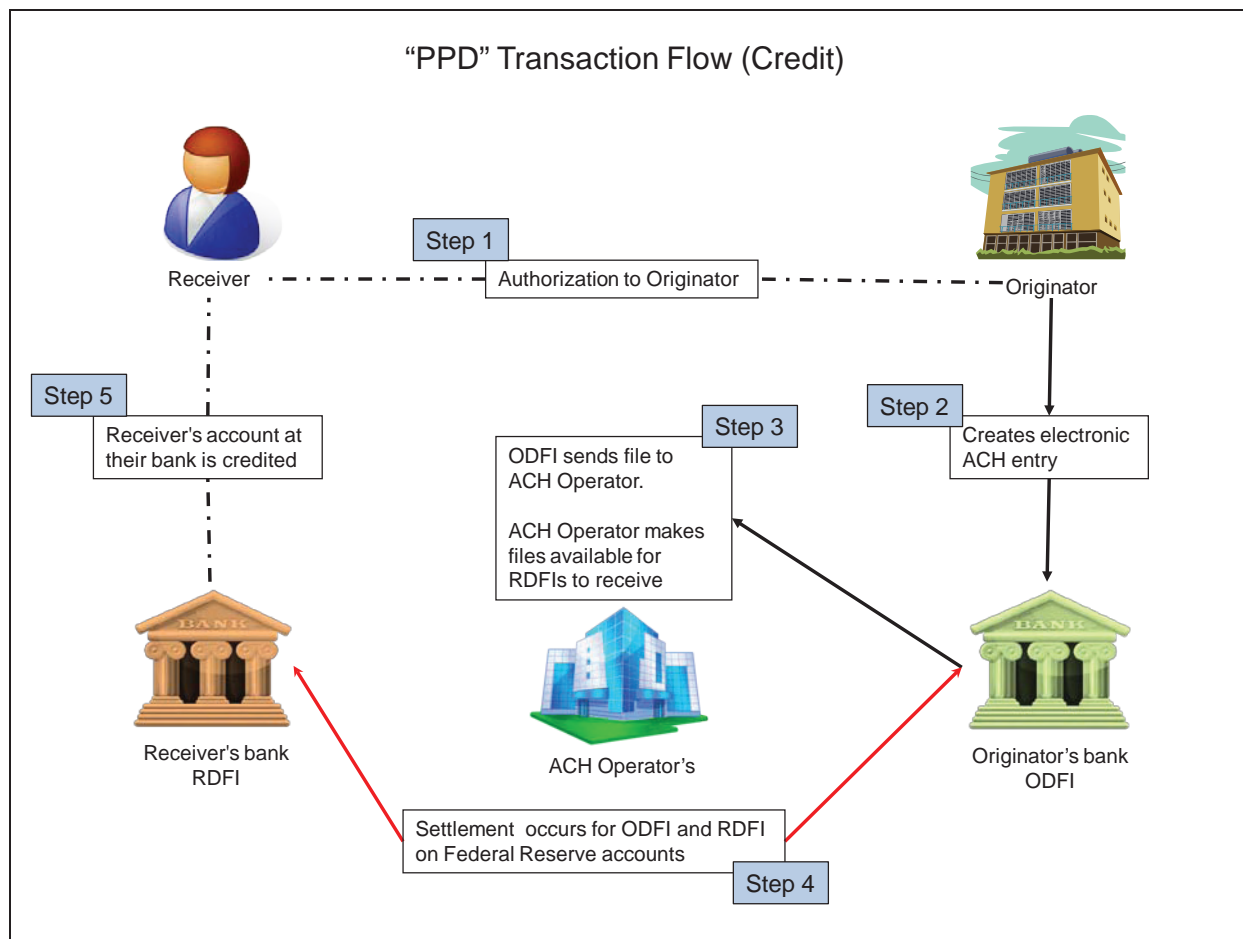
**Step 3:** The Third Party Service Provider creates a file in ACH format for the merchant's bank (ODFI). The Third Party Service Provider might also utilize its own financial institution to process the transaction. This would depend on the relationship and agreements among the merchant, Third Party Service Provider and ODFI.

**Step 4:** The merchant's bank (ODFI) receives the debit file from the Third Party Service Provider with the data collected at the merchant location and sends an ACH file for processing to its ACH Operator. The ACH Operator processes the information and sorts the entries based on the routing numbers. Files are made available for RDFIs to receive.

**Step 5:** The customer's bank (RDFI) receives their ACH files from their ACH Operator and debits the customer's account on the Settlement Date. They settle on their Fed account for the debit on Settlement Date as well.

*It should be noted that the methods of obtaining authorization and the risk management requirements for WEB and TEL entries differ from each other. The differences are outlined carefully in the ACH Operating Rules and must be followed.*

**Prearranged Payment and Deposit Entry (PPD):** Direct Deposit (Credit) is an ACH credit to a consumer Receiver's account at an RDFI. Direct Payment (Debit) is also a PPD but results in a debit to a consumer Receiver's account. The PPD Standard Entry Class Code is the original code used to classify ACH transactions. It still accounts for the highest number of ACH entries and is usually used for recurring credits or debits to consumer accounts, such as payroll credits or insurance premium debits.



**Step 1:** To initiate the process, the Receiver must first grant the Employer (Originator) authorization by providing data and a signature so that the Originator can set up a recurring credit to the Receiver’s account at the RDFI.

**Step 2:** The employer (Originator) creates an ACH entry based on the information provided on the authorization forms and transmits the ACH file to its ODFI.

**Step 3:** The ODFI processes the ACH files from each Originator and sends files to the ACH Operator for processing. The ODFI will be debiting the Originator’s account for the total amount of the Originator’s

payroll file on the date that is specified in the legal agreement between the ODFI and the Originator. The ACH Operator sorts the transactions by routing number and creates files for each RDFI. (The RDFI posts credit entries to the Receiver’s account based on the Settlement Date provided on each entry).

**Step 4:** Settlement of the transaction occurs on Settlement Date with a credit to the RDFI’s Fed account and a debit to the ODFI’s Fed account.

**Step 5:** The Receiver’s account at their bank is credited. Their monthly statement contains the details of the ACH credit that was posted to the Receiver’s account: date, amount, type of transaction, company name, etc.



## Understanding ACH Records

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This section will further provide investigative officials with an overview of the type of data that is captured by an ACH transaction. The detail provided will offer a basic understanding of ACH record formats.

### Sample ACH Record Formats

Samples of ACH Record Formats are listed on the following pages.

The first Record Formats are the File Header (Record Type Code #1) and File Control (Record Type Code #9) Records. This group appears as an outer “envelope” to the record and primarily identifies the transaction’s origin and destination and the total amount of debits and credits. The format of these records is consistent for all entries.

The second set of Record Formats contains the Company/Batch Header (Record Type Code #5) and Company/Batch Control (Record Type Code #8) Records. This group appears as an inner “envelope” and primarily provides information about the Originator and the Originator Financial institution (ODFI). Like the File Records, the format of these records is typically consistent for all entries.

The final group primarily indicates the receiving company, receiving FI, and affected accounts. This sequence of Record Formats contains the Entry Detail Records (Record Type Code #6) and Addenda Records (Record Type Code #7) according to Standard Entry Class Code. The formats contained here are for CCD (Corporate credit or debit) and PPD (Prearranged Payment and Deposit Entry). These codes represent both corporate and consumer entries and are some of the highest volumes of ACH entries.<sup>6</sup>

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6. All other Entry Detail Record Formats and Addenda Record Formats may be found in Appendix Two, Subsection 2.1 of the *ACH Operating Rules*. This subsection includes the Record Formats for the following Standard Entry Class Codes: ADV, ARC, BOC, CCD, CIE, CTX, DNE, ENR, IAT, MTE, POP, POS, PPD, RCK, SHR, TEL, TRC, TRX, WEB and XCK. A “Mandatory” field (“M”) is necessary to ensure proper routing and/or posting of an ACH entry and if not included in an ACH record, it will cause a reject by the ACH Operator. The omission of a “Required” field (“R”) will not cause an entry reject at the ACH Operator but may cause a reject at the RDFI. The inclusion or omission of an “Optional” field (“O”) is at the discretion of the Originator and ODFI.



**First Group of Formats  
ALL ENTRIES FILE HEADER RECORD (#1)**

Field	1	2	3	4	5	6	7	8	9	10	11	12	13
Data Element Name	Record Type Code	Priority Code	Immediate Destination	Immediate Origin	File Creation Date	File Creation Time	File ID Modifier	Record Size	Blocking Factor	Format Code	Immediate Destination Name	Immediate Origin Name	Reference Code
Field Inclusion Requirement	M	R	M	M	M	O	M	M	M	M	O	O	O
Contents	'1'	Numeric	bTTTT-AAAAAC	bTTTT-AAAAAC	YYMM DD	HH MM	Upper Case A-Z Numeric 0-9	'094'	'10'	'1'	Alphameric	Alphameric	Alphameric
Length	1	2	10	10	6	4	1	3	2	1	23	23	8
Position	01-01	02-03	04-13	14-23	24-29	30-33	34-34	35-37	38-39	40-40	41-63	64-86	87-94

**ALL ENTRIES FILE CONTROL RECORD (#9)**

FIELD	1	2	3	4	5	6	7	8
Data Element Name	Record Type Code	Batch Count	Block Count	Entry/Addenda Count	Entry Hash	Total Debit Entry Dollar Amount In File	Total Credit Entry Dollar Amount In File	Reserved
Field Inclusion Requirement	M	M	M	M	M	M	M	N/A
Contents	'9'	Numeric	Numeric	Numeric	Numeric	\$\$\$\$\$\$\$\$\$\$\$	\$\$\$\$\$\$\$\$\$\$\$	Blank
Length	1	6	6	8	10	12	12	39
Position	01-01	02-07	08-13	14-21	22-31	32-43	44-55	56-94

Second Group of Formats

ALL ENTRIES COMPANY/BATCH HEADER RECORD (Except ADV, & IAT) (#5)

FIELD	1	2	3	4	5	6	7	8	9	10	11	12	13
Data Element Name	Record Type Code	Service Class Code	Company Name	Company Discretionary Data	Company Identification	Standard Entry Class Code	Company Entry Description	Company Descriptive Date	Effective Entry Date	Settlement Date (Julian)	Originator Status Code	Originating DFI Identification	Batch Number
Field Inclusion Requirement	M	M	M	O	M	M	M	O	R	Inserted by ACH Operator	M	M	M
Contents	'5'	Numeric	Alphameric	Alphameric	Alphameric	Alphameric	Alphameric	Alphameric	YYMM DD	Numeric	Alphameric	TTTTAAAA	Numeric
Length	1	3	16	20	10	3	10	6	6	3	1	8	7
Position	01-01	02-04	05-20	21-40	41-50	51-53	54-63	64-69	70-75	76-78	79-79	80-87	88-94

ALL ENTRIES COMPANY/BATCH CONTROL RECORD (Except ADV) (#8)

Field	1	2	3	4	5	6	7	8	9	10	11
Data Element Name	Record Type Code	Service Class Code	Entry/ Addenda Count	Entry Hash	Total Debit Entry Dollar Amount	Total Credit Entry Dollar Amount	Company Identification	Message Authentication Code	Reserved	Originating DFI Identification	Batch Number
Field Inclusion Requirement	M	M	M	M	M	M	R	O	N/A	M	M
Contents	'8'	Nu-meric	Numeric	Nu-meric	\$\$\$\$\$\$\$\$cc	\$\$\$\$\$\$\$\$cc	Alph-meric	Alphameric	Blank	TTTTAAAA	Nu-meric
Length	1	3	6	10	12	12	10	19	6	8	7
Position	01-01	02-04	05-10	11-20	21-32	33-44	45-54	55-73	74-79	80-87	88-94

Final Group of Formats  
**CCD ENTRY DETAIL RECORD (#6)**

Field	1	2	3	4	5	6	7	8	9	10	11
Data Element Name	Record Type Code	Transaction Code	Receiving DFI Identification	Check Digit	DFI Account Number	Amount	Identification Number	Receiving Company Name	Discretionary Data	Addenda Record Indicator	Trace Number
Field Inclusion Requirement	M	M	M	M	R	M	O	R	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphameric	\$\$\$\$\$\$\$	Alphameric	Alphameric	Alphameric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

**CCD ADDENDA RECORD (#7)**

Field	1	2	3	4	5
Data Element Name	Record Type Code	Addenda Code	Payment Related Information	Addenda Sequence Number	Entry Detail Sequence Number
Field Inclusion Requirement	M	M	O	M	M
Contents	'7'	'05'	Alphameric	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94

PPD ENTRY DETAIL RECORD (#6)

Field	1	2	3	4	5	6	7	8	9	10	11
Data Element Name	Record Type Code	Transaction Code	Receiving DFI Identification	Check Digit	DFI Account Number	Amount	Individual Identification Number	Individual Name	Discretionary Data	Addenda Record Indicator	Trace Number
Field Inclusion Requirement	M	M	M	M	R	M	O	R	O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphameric	\$\$\$\$\$\$\$	Alphameric	Alphameric	Alphameric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

PPD ADDENDA RECORD (#7)

Field	1	2	3	4	5
Data Element Name	Record Type Code	Addenda Code	Payment Related Information	Addenda Sequence Number	Entry Detail Sequence Number
Field Inclusion Requirement	M	M	O	M	M
Contents	'7'	'05'	Alphameric	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94



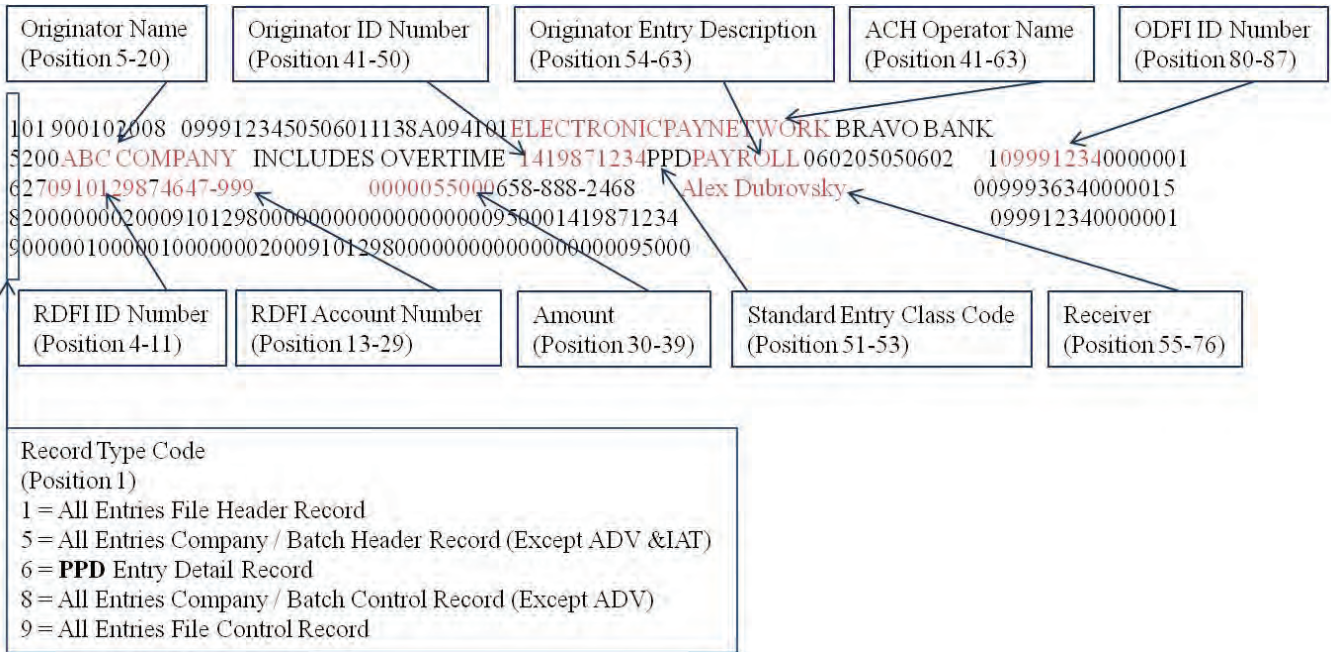
### *Sample Transaction and Related Records*

Let's next explore sample records related to a hypothetical transaction. For purposes of this bulletin, the data fields presented below are typically the fields of interest to investigative officials and are further highlighted in the sample transaction and transaction flow. It is helpful, at the outset, to also reiterate the meaning of basic ACH terms.

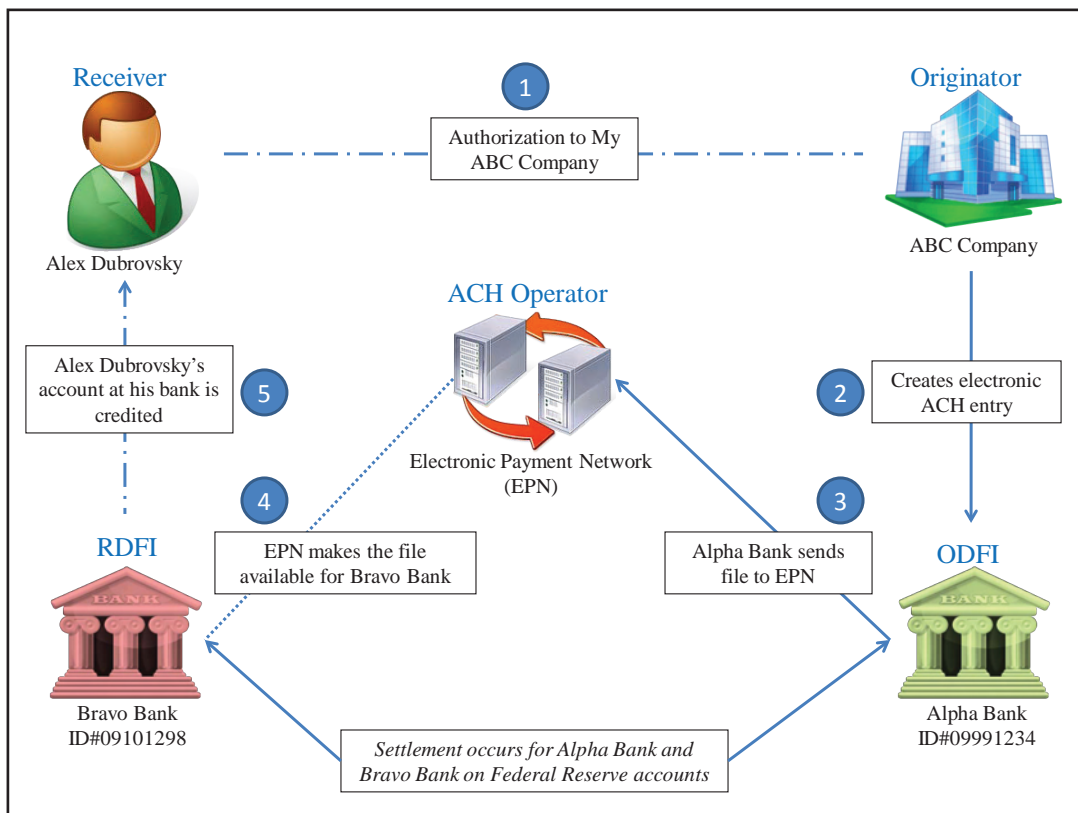
1. **Originator:** This party is the entity that agrees to initiate ACH entries into the payment system according to an arrangement with a Receiver. The Originator is usually a company directing a transfer of funds to or from a consumer's or another company's account, but also may be an individual initiating a funds transfer activity from his or her own account, as in a Customer Initiated Entry.
2. **Originating Depository Financial Institution (ODFI):** This party is the institution that receives payment instructions from Originators and forwards the entries to the ACH Operator.
3. **ACH Operator:** The ACH Operator is the central clearing facility operated by a private organization or a Federal Reserve Bank (FRB) on behalf of DFIs, to or from which Participating DFIs transmit or receive ACH entries. Currently, there are two ACH Operators: Electronic Payments Network (EPN) and the Federal Reserve (FedACH).
4. **Receiving Depository Financial Institution (RDFI):** This party is the DFI that receives ACH entries from the ACH Operator and posts the entries to the accounts of its depositors (Receivers).
5. **Receiver:** A Receiver is a natural person or an organization that has authorized an Originator to initiate an ACH entry (credit or debit) to the Receiver's account with the RDFI. A Receiver may be either a company or a consumer, depending on the type of transaction.



Sample Record



Correlating Transaction Flow





**Step 1:** Alex Dubrovsky (the Receiver) authorizes his company, ABC Company to credit his account for payroll transactions;

**Step 2:** ABC Company (the Originator) creates an ACH file to send on to Alpha Bank (the ODFI);

**Step 3:** Alpha Bank (the ODFI) then sends on the file to Electronic Payment Network (the ACH Operator);

**Step 4:** Electronic Payment Network makes the file available to Bravo Bank (the RDFI) (Dubrovsky's Bank) and arranges the settlement for Alpha Bank and Bravo Bank accordingly;

**Step 5:** Dubrovsky's account at Bravo Bank is credited.

### ***Availability of Records***

ACH indicates that the best first stop for investigative officials seeking to obtain ACH records would be the actual financial institutions involved in the transaction. If unsuccessful, however, one potential backup approach is to contact the Clearing House (as EPN) and/or the Fed (as FedACH) to submit a subpoena to its legal staff for the information being requested. Financial institutions are required to retain transactional records for seven years. Typically, ACH operators retain records of all ACH transactions handled for a period of one year.

#### *The Clearing House Payments Company*

Phone number: 212-613-0100

Address: The Clearing House Payments Company, 450 W. 33rd St., New York, NY 10001

*The Federal Reserve Bank of Atlanta, Legal Department*

Phone number: 404-498-8855

Address: Federal Reserve Bank of Atlanta, 1000 Peachtree Street NE, Atlanta, GA 30309

### **NACHA and International ACH Transactions**

NACHA-The Electronic Payments Association (National Automated Clearing House Association) was formed in 1974 to establish uniform operating rules for the exchange of ACH payments among ACH associations. Today, the ACH network facilitates commerce electronically by serving as an efficient, reliable, and secure payments system. NACHA, representing over 11,000 member depository financial institutions and 18 regional payments associations, fulfills this purpose by managing the development, administration, and governance of the ACH network, and by providing services to its members as the industry association responsible for ACH payments.<sup>7</sup>

Since its inception, NACHA has administered an evolving list of operating rules ("NACHA Operating Rules") to coincide with applicable laws and regulations to govern the exchange of ACH payments and define the roles and responsibilities of the financial institutions in the ACH network.

7. The most recent available statistics indicate that over 18.76 billion ACH entries were processed in 2009. See <http://www.nacha.org/c/aboutus.cfm>



In September, 2009, NACHA revised its operating rules to include a section on International ACH Transactions (IAT). The new rules are designed to align the NACHA operating rules with the requirements of the Office of Foreign Assets Control (OFAC) and make it easier for financial institutions to comply with those obligations.

Historically, most payments initiated internationally were introduced into the U.S. ACH Network through domestic correspondent banking relationships as domestic transactions, due to standardized coding used in the ACH Network. This made it difficult for the U.S. financial institutions to identify the payments and parties as international.

This gap meant that the appropriate due diligence required to ensure that U.S. laws are not violated could not be guaranteed. For example, an international ACH transaction not properly identified might not be screened against the OFAC SDN list to ensure that any involved parties are not targeted foreign countries, terrorists, international narcotics traffickers or involved in the proliferation of weapons of mass destruction.

Additionally, the new rules brought ACH transaction transparency more in line with the Bank Secrecy Act (BSA) "Travel" rule requirements. The BSA requires "Travel" rule information when funds transfers exceed \$3,000. The "Travel" rule requires all financial

institutions to *pass on* certain information to the next financial institution in certain funds transmittals involving more than one financial institution. This includes:

- The name of the transmitter;
- The account number of the transmitter, if used;
- The address of the transmitter;
- The identity of the transmitter's financial institution;
- The amount of the transmittal order;
- The execution date of the transmittal order; and
- The identity of the recipient's financial institution;
- The name of the recipient;
- The address of the recipient;
- The account number of the recipient; and
- Any other specific identifier of the recipient.

The ACH rules established by NACHA require this same information for all IATs, even though they are not "funds transfers" within the meaning of the BSA and its implementing regulations.





### International ACH Transaction (IAT)

It is important for investigative officials to also be basically aware of and familiar with International ACH Transactions (IATs). An IAT is a debit or credit entry that is part of a payment transaction involving a financial agency’s office that is *not* located in the territorial jurisdiction of the United States. For the purposes of this definition, a financial agency means an entity that is authorized by applicable law to accept deposits or is in the business of issuing money orders or transferring funds.

A foreign financial agency’s office is “involved” in a transaction when it:

- Holds an account that is credited or debited as part of the transaction; or
- Receives funds directly from a person or makes a payment directly to a person; or
- Serves as an intermediary in the settlement of any part of a transaction.

*Military bases, U.S. embassies and U.S. territories are considered under U.S. jurisdiction so transactions involving these locations are considered domestic and not IATs.*

Some U.S. financial institutions provide International ACH Transaction (IAT) services, particularly to their corporate customers, as a lower-cost alternative to international wire transfers. These services generally require an arrangement between the U.S. institution and its overseas branches. Otherwise, correspondent relationships with a foreign financial institution are used. The Federal Reserve banks also provide limited international ACH services to depository institutions and the U.S. government.

There are three factors to consider when determining if an ACH transaction should be classified as an IAT transaction:

- Payment Transaction – A payment instruction to create ACH transactions plus explicit funding for the ACH file.
- Financial Agency – Funding for the transaction is transmitted to or received from a financial agency located outside the territorial jurisdiction of the United States.
- U.S. ACH Network – Any part of the transaction is processed through the U.S. ACH Network.<sup>8</sup>

Payment Transaction	+	Financial Agency	+	U.S. ACH Network	=	IAT
(Instruction & Settlement)		(Outside the territorial jurisdiction of the U.S.)		(At any point in the transaction)		

*The physical location of the originator and beneficiary is not considered in the identification of an IAT.*

8. See <https://www.key.com/pdf/scenarios-simplified.pdf>

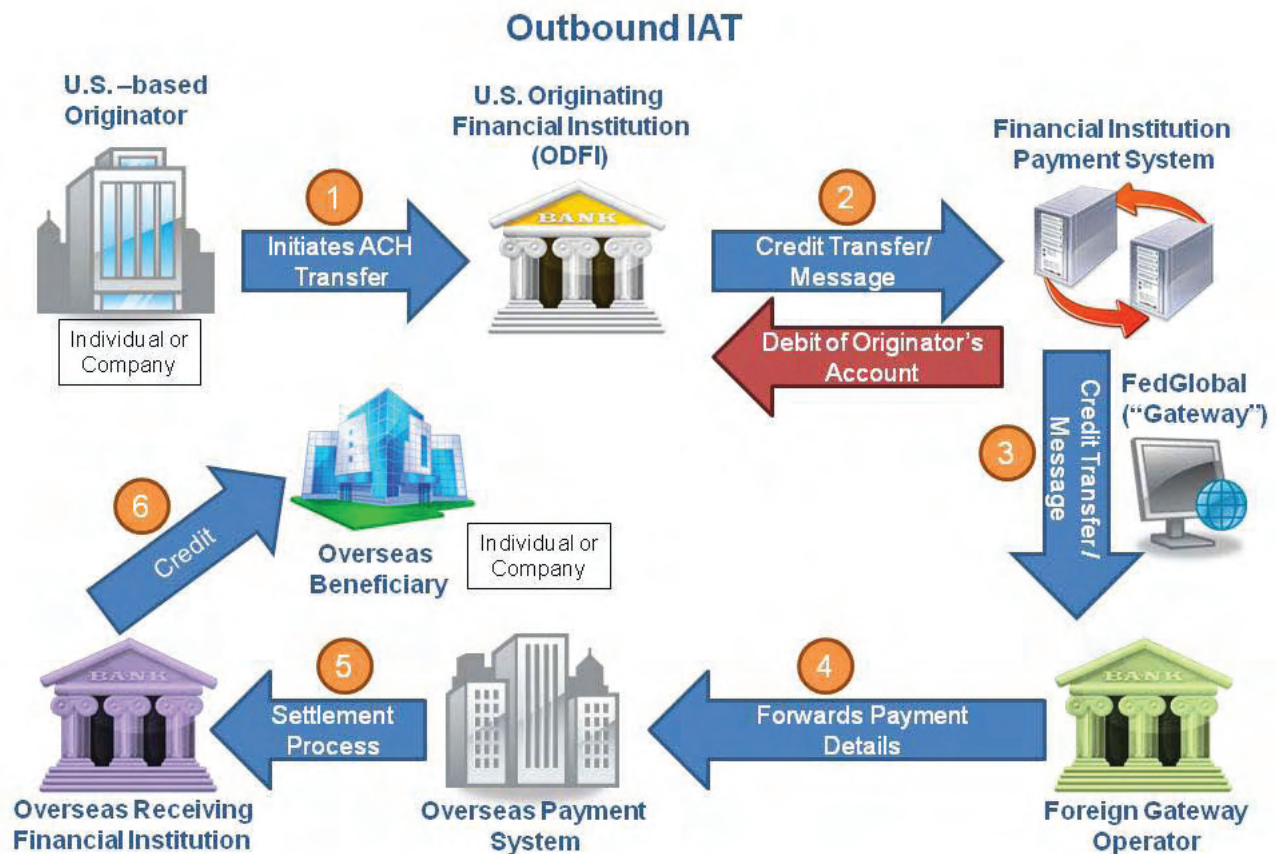


The benefits of international ACH transactions are the same as domestic ACH payments in terms of safety, reliability and security. In addition, international ACH transactions benefit users through a reduction in funds movement costs, more predictable cash flow, a reduction in the need to maintain multiple bank relationships globally, and settlement on a specified value date.

Exchanging ACH payments internationally does, however, present certain challenges:

- 1.) No global or international ACH Operator exists
- 2.) No internationally utilized standard for batch processing is available
- 3.) No common set of rules exists
- 4.) Settlement times vary by country
- 5.) Different formats exist for account numbers and bank routing numbers
- 6.) Holiday schedules vary by country
- 7.) Debit rules vary by country
- 8.) Local currency is required for domestic payment systems

The following graphic further illustrates the flow and stages of an Outbound International ACH credit transaction.





**Step 1:** The U.S.-based Originator has obtained authorization via a sales agreement with an overseas Beneficiary (Receiver), in order for the Originator to send an ACH credit to the account of the Beneficiary for the purchase of goods or services. The ACH transaction is initiated by the U.S.-based Originator, which sends the ACH IAT credit data in the proper IAT format to its ODFI in the U.S. (The ODFI debits the Originator's account based on the details provided in the legal agreement between them).

**Step 2:** The U.S. based ODFI forwards its file of IAT entries to its payment system to prepare it for transmission.

**Step 3:** The U.S. based ODFI then transmits its file of prepared IAT entries from its payment system to FedGlobal, which will be acting as the "Gateway" (see note box below) in this transaction. FedGlobal then contacts the Foreign Gateway Operator by sending a SWIFT or other proprietary message. The currency conversion as well as the format mapping from the U.S. ACH format to the foreign country's format take place between the two Gateways – based on their agreements with each other and the payment details provided.

**Step 4:** The Foreign Gateway Operator then forwards the IAT transaction into their payment system. The overseas payment system now has the IAT credit entry mapped into a format that corresponds to one compatible with NACHA formats.

**Step 5:** The IAT credit entry will be forwarded to the foreign based RDFI for settlement and posting. If the Foreign Gateway does not have an account directly with the foreign RDFI, the

entry may first be forwarded to one or more Intermediary Banks serving as Correspondent Banks to move the transaction to the ultimate destination.

**Step 6:** The overseas (foreign) RDFI receives the IAT credit and then credits the payment from the U.S.-based Originator to the Beneficiary's account.<sup>9</sup>

*Gateway Operator: A Gateway Operator is any depository financial institution or ACH Operator that acts as the entry point to, or exit point from the U.S. depository financial institutions.*

*ACH Operator Acting as a Gateway Operator: An ACH Operator acting as a gateway operator will be required to restrict inbound IAT entries to ACH credits only, with the exception of reversing debits. Outbound IAT entries processed through an ACH Operator acting as a Gateway operator can be either credits or debits.*

*U.S. DFI Acting as a Gateway Operator: DFIs acting as Gateway operators may originate both credit and debit entries, inbound and outbound. A DFI acting as a Gateway operator within the United States will also assume the responsibilities and warranties for IAT entries and ensure all ACH files are processed within OFAC guidelines.*

9. See [http://www.frb services.org/eventseducation/education/iat\\_change.html](http://www.frb services.org/eventseducation/education/iat_change.html)



## Recently Established Federal Reserve Bank Remittance Service

The Federal Reserve Bank of Atlanta recently implemented the expansion of cross-border ACH payments, both in terms of the number of countries that could receive ACH payments from the U.S. and in terms of the variety of ACH protocols that could be used to send and receive payments. The objective of the Atlanta Federal Reserve's recent expansion is to provide a viable payment solution for sending payments to non-U.S. recipients, particularly to the unbanked, from senders in the U.S.

The expanded service allows funds from U.S. accounts to be sent to unbanked receivers in eleven Latin American countries. Because the receivers are "unbanked," they must retrieve the payments from a third party provider selected by the Federal Reserve. The Reserve Banks are now working with Banco de Mexico to provide the services to Mexico, and with Banco Rendimento and Microfinance International Corp. to provide the services in Argentina, Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Peru and Uruguay.

This type of transfer to an intermediary third party is referred to as an "account-to-receiver" service, rather than the more typical "account-to-account" ACH. The account-to-receiver service is similar to an account-to-account payment service, except that the funds are not credited to the receiver's bank account but are disbursed to the receiver in cash by a financial institution or by a trusted third party that acts as a disbursing agent.<sup>10</sup>

Below are some of the key points of the Atlanta Fed's expanded service:

- Outbound credits from accounts at a participating financial institution (ODFIs) in the United States could be picked up in a destination country by receivers at a participating financial institution. (Note: the participating financial institution is not necessarily always going to be a bank, since part of the objective is to service the unbanked).
- There would be a \$1,000 limit per item.
- Receiving institutions are regulated financial entities in the destination country and must meet certain criteria established by the Atlanta Federal Reserve.
- The receiver of the funds would have to show a valid form of identification and payment password to pick up the funds. If the funds are not picked up from the receiving institution after 30 days, the funds will be returned to the sending institution.
- All payments will be processed through the Atlanta Fed's FedGlobal service acting as the U.S. Gateway Operator.

The Atlanta Fed will screen inbound cross-border ACH items, including returned payments, for OFAC compliance purposes. The Reserve Bank will not resolve, block or freeze suspect payments, but will indicate that an item is a potential OFAC "hit" in the file that the Reserve Bank sends to the RDFI. Under the expansion, all U.S. financial

10. From June 8, 2010 Press Release: "Federal Reserve Banks collaborate with Banco de México (The Central Bank of Mexico), Banco Rendimento and MFIC to offer remittance service to Latin America." See [http://www.frbservices.org/files/communications/pdf/press/060810\\_frb\\_remittance\\_service\\_latina\\_mexico.pdf](http://www.frbservices.org/files/communications/pdf/press/060810_frb_remittance_service_latina_mexico.pdf)



institutions involved in IATs will also be obliged to monitor for OFAC compliance, along with customer identification, AML monitoring and Suspicious Activity Report (SAR) filing where necessary. The foreign receiving institutions, however, do not have OFAC obligations, nor do they necessarily have equivalent AML monitoring procedures.

## OFAC Screening

The Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries and regimes, terrorists and terrorist organizations, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. OFAC is responsible for imposing controls on transactions and freezing foreign assets under U.S. jurisdiction. Many of the sanctions are based on United Nations and other international mandates, are multilateral in scope, and involve close cooperation with allied governments. All U.S. persons and entities (individuals, companies, non-profit groups, government agencies, etc.) are responsible for complying with the sanctions levied by OFAC.

*If a financial institution contracts with a Third-Party Service Provider to do the actual OFAC review of their transactions, the financial institution is still liable for OFAC compliance. The liability does not transfer to the Third-Party Service Provider.<sup>11</sup>*

Economic sanctions are designed to deprive the target of the use of its assets and to deny it access to the U.S. financial system and the benefits of trade, transactions, and services involving U.S. markets, businesses, and individuals. Sanctions authority has also been used to protect certain assets subject to U.S. jurisdiction and to further important U.S. nonproliferation goals.

In an *Outbound* International ACH Transaction the Originator and the ODFI are **both** responsible for OFAC screening of **all** the parties involved in the transaction, since the financial institutions are not able to rely on their international counterparts for compliance with U.S. law. Any positive hits to OFAC sanctioned entities must then be reported to OFAC. In the case of an *Inbound* International ACH Transaction, the Gateway Operator and the RDFI are responsible for the OFAC screening of all parties involved in the transaction, and following the appropriate measures if any positive hits are found.

*In a strictly domestic ACH transaction where the payment only involves U.S. financial institutions and does not involve any non-U.S. parties, the ODFI is responsible for verifying that the Originator is not a sanctioned entity. Similarly, the Receiving institution (RDFI) is responsible for verifying that the beneficiary (Receiver) is not a sanctioned entity on the OFAC SDN list.<sup>12</sup>*

11. See [http://www.frb services.org/help/fedach\\_ iat.html](http://www.frb services.org/help/fedach_ iat.html)

12. See [http://www.ffi ec.gov/bsa\\_ aml\\_ infobase/pages\\_ manual/OLM\\_ 037.htm](http://www.ffi ec.gov/bsa_ aml_ infobase/pages_ manual/OLM_ 037.htm)



## Observations from BSA Data

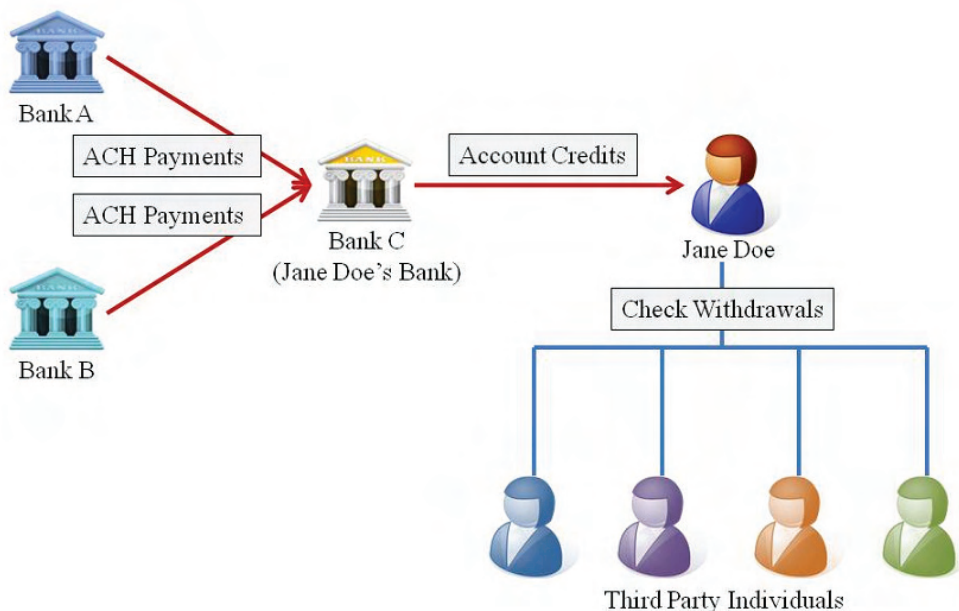
A review of recent BSA data referencing ACH transactions identified a number of SARs reporting variations of money laundering and fraud. Most of the SARs were filed in response to advanced fee scams, work at home scams, and check fraud. A few sample scenarios (sanitized) are outlined below:

### SAR Example I

*A SAR was filed in March 2010 on the basis of suspected ACH fraud and possible money laundering involving a single individual and several financial institutions.*

- Jane Doe opened a consumer checking account with the minimal account opening balance. She presented a foreign passport and student visa as identification for account opening.
- Jane Doe then withdrew almost all of the funds, leaving only the minimum account balance.

- One week later, she received an ACH transfer of \$15,000 and withdrew the funds in cash at three separate branches on the same day. The SAR indicates that the dollar amounts represent an attempt to structure the cash withdrawals.
- The ACH transfer that entered the account was recalled by the sending institution, but the funds had already been withdrawn by Jane Doe.
- Over the next 30 days, Jane Doe received six additional ACH transfers from four different accounts located at two different banks.
- Jane Doe then drew against the funds by issuing checks written to third party individuals, all of whom shared the same address as Jane Doe. All seven of the transactions were recalled due to fraud, but all of the funds had already been withdrawn prior to being recalled.

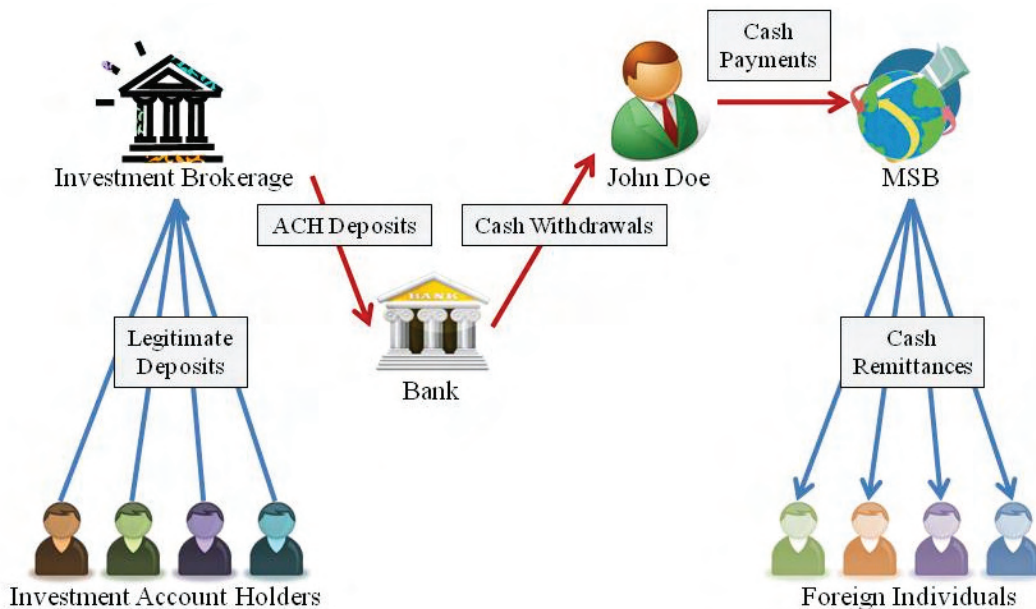




### SAR Example II

Another SAR was also recently filed due to an individual bank customer receiving numerous unauthorized ACH payments. All of the payments were recalled by the Originator due to fraud. What is unique about this SAR is that the subject of the SAR wasn't intentionally misrepresenting himself. He was unknowingly serving as a middle man for the actual criminal.

- John Doe's account held an average balance of \$1,100 prior to the ACH payments.
- Over a 30 day period, John Doe received over \$30,000 in ACH deposits from numerous accounts at an online investment brokerage that were not in his name.
- Each time an ACH deposit was made to the account John Doe entered bank branches and withdrew cash in amounts just under the total of that day's ACH deposits.
- Upon questioning by the bank, John Doe indicated that he had been hired for an online job in which he accepts ACH payments and then withdraws the funds to send to Latvia through a Money Services Business (MSB). He was instructed to keep a portion of each ACH deposit as payment for his services.
- The bank contacted the investment brokerage to discuss the transactions and it was learned that all of the transactions were unauthorized.
- The remaining funds in John Doe's account were remitted back to the investment brokerage to disburse to their account holders as part of an indemnification agreement.





## Appendix

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### *Commonly Used ACH Terms*

**ACH:** The Automated Clearing House is an electronic payment Network that exchanges funds via Electronic Funds Transfer (EFT).

**Addenda Record:** A record of information that may be attached to an Entry Detail Record containing additional payment information (i.e., EDI messages, change and return information).

**Authorization:** Refers to the authorization of an ACH transaction by a consumer or company. Most authorizations must be in writing and must be retained by the Originator for a period of two years. Types of authorizations that are acceptable vary by the type of Standard Entry Class Code used, and whether the authorization is for a consumer or corporate entry.

**Corporate Payments:** Business to business ACH Network collection and disbursement of funds. The Federal government mandates this form of payment for corporate taxes and payments to government vendors.

**Direct Deposit:** The disbursement of funds to a variety of consumer accounts, such as payroll, interest, trust disbursements, expense payments, dividends, pension payments, etc. This is the most widely used ACH service.

**Direct Payment:** The transfer of funds from consumer accounts to business accounts. Direct payments are typically for recurring expenses, such as health club membership, rent, phone, utility bills, newspaper bills, trash collection, mortgage payments, lease payments, etc.

**EFT:** Electronic Funds Transfer is the transfer of funds from one bank account to another bank account utilizing an electronic payment system.

**Effective Entry Date:** The date an Originator enters on an ACH Batch Header Record to indicate the date the Originator intends for the transactions in that batch to post to the Receiver's accounts.

**Lockbox Check Conversion:** The process of converting checks received in the mail or a drop-box into ACH debit entries. Also called Accounts Receivable Conversion (ARC).

**NACHA:** The National Automated Clearing House Association, which makes and interprets the rules under which the ACH system operates.

**One Time Payment Authorization:** An individual or company authorizes a one-time account debit. This could be for Internet-Initiated Entries (WEB), Telephone-Initiated Entries (TEL) or maybe a check conversion entry, such as ARC, POP or BOC.

**Pre-notification:** An optional non-dollar entry sent prior to the first live entry to notify the RDFI of future payments and to verify account information supplied.

**POS:** Point of Sale Entry is a term used to describe an ACH debit card transaction at the Point of Sale - for example, at the supermarket checkout counter.

**RCK:** Refers to a Re-presented Check Entry and represents the electronic check process to collect a debit through ACH for a paper check that was returned for NSF or uncollected funds.





**Recurring Payment Authorization:** An individual or company authorizes an ACH debit to their account to recur for the same period and amount until the Receiver revokes the authorization.

**RDFI:** The Receiving Depository Financial Institution, the financial institution that receives an ACH transaction for a holder of an account.

**Settlement Date:** The date assigned by the ACH Operator for the actual transfer of funds on ODFI and RDFI Fed accounts (or through their correspondent if they do not have an account at the Fed.) This date usually matches the Effective Entry Date supplied by the Originator. However, if that is not possible, the ACH Operator assigns the next available banking date as the Settlement Date.

**Standard Entry Class Code (SEC):** Three character code, such as Prearranged Payments or Deposits (PPD), used in an ACH Batch Header Record to indicate the ACH format being used and to identify entries for proper application of rules.

**Telephone-Initiated Entry:** (TEL) is an entry initiated through a telephone authorization for a onetime debit to a consumer account for collection of funds for payment of goods or services. A TEL is valid only when there is an existing relationship between the parties or if no existing relationship, then the consumer initiates the telephone call.

**Transaction Code:** Two-digit code that indicates whether an entry is a debit, credit or non-dollar entry to a checking, savings, loan or financial institution general ledger account.

### *Standard Entry Class Codes (SECs)*

In order for Law enforcement officials to better understand an ACH record that is obtained during an investigation, it is first important to understand the Standard Entry Class Codes. In summary, they are a three character code, such as Prearranged Payments or Deposits (PPD), used in an ACH Batch Header Record to indicate the ACH format being used and to identify entries for proper application of rules. The various types will be summarized below to assist Law enforcement officials in their records analysis efforts to readily determine the type of ACH transaction that is being conducted.

### **Consumer Applications**

Consumer payments that are made via ACH would include credit items such as payroll, retirement, dividend, interest, and annuity payments. Debit items would include collection of insurance premiums, mortgage payments, utility payments, variety of membership payments and other recurring payment obligations, as well as non-recurring payments for some types of Standard Entry Class codes. The following are some of the main types of Standard Entry Class codes for consumer applications.

**ARC: Accounts Receivable Conversion:** Enables an Originator to convert to a Single-Entry ACH Debit from a consumer check received from U.S mail or drop box location for payment of goods or services. The information to create the entry is obtained from the consumer's check and would include routing number, account number, check serial number and dollar amount.



**CIE: Customer Initiated Entry:** The consumer has initiated the transfer of funds to a company for payment of goods or services from that company. This is typically done via home banking or some type of bill payment service provider.

**MTE (Machine Transfer Entry):** This represents clearing a transaction through the ACH Network from an ATM.

**POP (Point of Purchase Entry):** Originators use this as a method of payment for the in-person purchase of goods or services by consumers. These are single entry items that are based on written authorization and account information that is obtained from a check supplied by the consumer at the point of purchase. The check is voided at the point of sale after collection of the consumer's routing number, account number, and check serial number are used to generate a debit entry to the consumer's account.

**PPD (Prearranged Payment and Deposit Entry):** Direct Deposit which involves transferring money into a consumer (Receiver) account at an RDFI. It also can be used for a Direct Payment which is a recurring ACH debit, such as insurance premiums or mortgage payments to a consumer's account.

**POS/SHR (Point of Sale Entry / Shared Network Transaction):** These types of transactions are typically generated by the consumer with a plastic access card at a point of sale location.

**RCK (Re-presented Check Entry):** This code is used to represent a check entry that was initially denied because of insufficient or uncollected funds by truncating the original check and creating an ACH debit from it.

**TEL (Telephone – Initiated Entry):** This entry is used when voice authorization is obtained from the customer via the telephone for an ACH one-time debit to a consumer's account.

**WEB (Internet Initiated Entry):** This entry was authorized by the consumer Receiver via the Internet. It is a debit that may be set up for a single-entry WEB or a recurring WEB.

### Corporate Applications

Corporate entries include cash concentration or disbursement payments,<sup>13</sup> corporate trade payments, state and federal tax payments. The following are the Standard Entry Class codes for corporate applications.

**CCD (Cash Concentration or Disbursement):** Used when funds are either distributed or consolidated between corporate entities. This code contains one optional addenda record.

**CTX (Corporate Trade Exchange):** Identifies credit or debit entries between a corporate Originator and a corporate Receiver. This code contains optional addenda records (up to 9,999) that relay EDI information about the payment from the corporate Originator to the corporate Receiver.

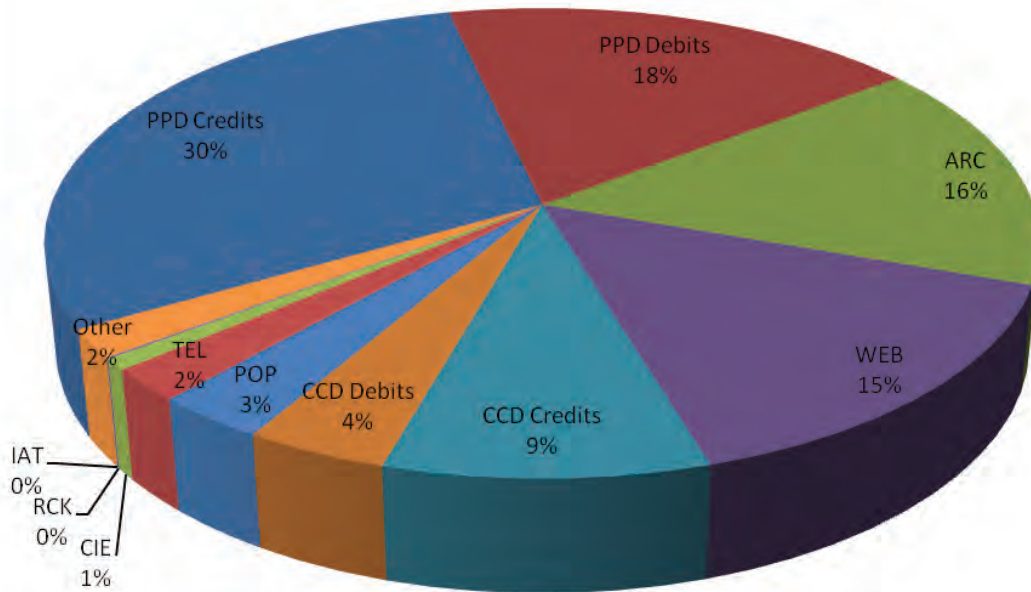
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13. Corporate trade payments enable corporations to exchange both data and funds with trading partners, which enables the updating of their accounts receivable and accounts payable systems.



The following pie chart and table provide a percentage break out and total of the various ACH transaction applications which were conducted in 2009. The volume transmitted via the ACH Operators includes commercial inter-bank and Federal government transactions, but not “on-us” transactions.<sup>14</sup>

### ACH Transaction Types 2009



SEC Code	2009*
PPD Credits	4,544,914,263
PPD Debits	2,769,889,900
ARC	2,410,088,696
WEB	2,280,004,983
CCD Credits	1,384,115,844
CCD Debits	611,575,008
POP	480,748,819
TEL	343,549,172
CIE	119,176,953
RCK	11,840,959
IAT	1,706,306
Other	430,413,404
<b>Total Network Payments</b>	<b>15,257,006,395</b>

\*Source: NACHA - The Electronic Payments Association

14. It is possible that the payer and payee do business with the same bank. In that case, balances are shifted on the books of that bank, and there are no interbank transactions. This is known as an on-us transaction, in which there is no delay in settlement.



## Feedback

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FinCEN values ongoing observations and feedback from law enforcement partners regarding these emerging threats. Sharing your experience allows FinCEN to bring the law enforcement communities together, gain from lessons learned, and capture any emerging challenges, trends, and/or technologies.

If you have any further insights along these lines, please contact us via [BulletinForum@fincen.gov](mailto:BulletinForum@fincen.gov).