



FEDERAL RESERVE BANK OF DALLAS

Station K, Dallas, Texas 75222

Circular No. 84-120
December 10, 1984

TO: All depository institutions in the Eleventh Federal Reserve District

ATTENTION: Operations Officer/Reserve Account Manager

SUBJECT: **New procedures regarding automated clearinghouse (ACH) paper return item processing and notifications of change**

DETAILS: Beginning February 7, 1985, all ACH paper return items and notifications of change deposited with the Federal Reserve will be converted to automated form at the Federal Reserve office of first deposit. This improvement should help eliminate paper items being returned to the originating institution by a Federal Reserve office. In addition, the new process will make it possible for all Federal Reserve offices to provide improved availability for paper return items.

In conjunction with the new process, the deposit closing time for paper items will be 7:00 a.m. Central Time. Settlement for all items -- both interregional and intraregional -- received by this time will be settled on the same day. All paper return items received after this closing time will be settled the next day. This means that more items can receive same-day availability. Previously, only those items deposited in an intraregional return item letter could be processed on a same-day basis.

On July 1, 1985, the practice of allowing originating institutions to receive return items and notifications of change in paper form when all other ACH payments are delivered in machine readable form will be discontinued. Although July 1 is the cutoff date, the Federal Reserve Bank of Dallas encourages each originating institution to convert as soon as possible. This date has been established to provide originating institutions lead time to accommodate the

changes. Continuing delivery of return items to originators in paper form would mean that items automated by the Federal Reserve would have to be reconverted to paper.

In an effort to encourage a fully automated ACH, a fee of \$2.50 will be assessed to the returning institution for each paper return item and notification of change deposited with the Federal Reserve. This method of charging for paper items will allocate the cost of handling the paper items to those institutions that have the most control over the decision to use paper-based or automated methods. This fee is part of the 1985 ACH fee schedule approved by the Board of Governors of the Federal Reserve System on November 14, 1984.

We believe that these changes will contribute to the evolution of the ACH toward a fully electronic payments mechanism. A great deal of planning has gone into preparing for the automation of paper items and formatting procedures to accomplish the conversion from paper. These changes will be officially incorporated into the National Automated Clearinghouse Association's (NACHA) rules and guidelines which will be updated on February 7, 1985. The Federal Reserve's implementation date for the automation process has been coordinated with the release of their rules and guidelines.

In this regard, it is important for originating institutions to be aware of changes in the use of automated return items fields for items which have been converted from paper. For example, automated return items created from paper will bear the standard entry class code "RET" in field six of the batch header record and the routing/transit number of the Federal Reserve office performing the automation will appear in field seven.

We realize that these changes may involve questions and additional planning for depository institutions. If you have any questions related to these changes or wish to know the details about the format used to convert the items, please contact the person listed below.

MORE INFORMATION:

B.B. Sessions, Extension 6403

ADDITIONAL COPIES:

Public Affairs Department, Extension 6289