



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT
AND CHIEF OPERATING OFFICER

March 24, 1989

DALLAS, TEXAS 75222

Circular 89-19

TO: All ACH Contacts in the Eleventh
Federal Reserve District

SUBJECT

On April 7, 1989, the Federal Reserve Bank of Dallas will install a new release of the Federal Reserve System's Automated Clearing House (ACH) processing software which will enable us to support the 1989 NACHA Rules changes and service enhancements identified below.

DETAILS

1989 NACHA RULES CHANGES

Some of the 1989 NACHA Rules changes could have a substantial impact on financial institutions' timely handling of ACH transactions. The major changes are explained below. For a complete list of the changes that are effective April 7, please refer to the 1989 NACHA Rules. If you do not have a copy of the 1989 Rules, please contact appropriate personnel as indicated at the end of this circular for information on how to obtain a copy.

Standard Entry Class Code

Use of a valid Standard Entry Class (SEC) Code in the Batch Header Record will be mandatory. ACH operators will reject any batch that contains an invalid SEC code, i.e. a code other than those listed on page OR 78 of the 1989 NACHA Rules. (Although the SEC edit is a batch level edit, file rejection will occur if the sending point has elected file level rejection.) Please note however, that the SEC code "RET" is not valid for use by financial institutions when returning ACH items. Financial institutions should use the SEC code from the original transaction when creating a return item batch.

In January 1989, Federal Reserve processing offices began producing "warning" reports to advise originators of batches containing invalid SEC codes. These warning reports will continue to be forwarded to originating financial institutions until April 7. If your institution has received a warning report, you should assure yourself that the related problems have been

corrected to ensure that your deposits of batches or files are not rejected for an invalid SEC code.

Refused Notifications of Change

This rule change provides the mechanism and the format for an originating financial institution to refuse a Notification of Change entry which cannot be processed due to incorrect or improperly formatted information.

The 1989 Rules specify seven new change codes, C61 thru C67, that may be used to indicate a refused Notification of Change. The refusal change code should be entered in positions 65-67 of the Addenda Information Field in the COR addenda record. The change code specified in positions 4-6 of the original COR addenda record should not be altered by the institution refusing the item.

The table of change codes for refused Notification of Change entries and the addenda record format for automated refused Notifications of Change are specified on pages OR 130 and OR 135, respectively, of the 1989 NACHA Rules. Federal Reserve Banks will accept and process paper refused Notifications of Change only for a period from April 7, 1989, through July 7, 1989. After July 7, 1989, an originating financial institution refusing an NOC must automate the refusal or must address the refusal directly with the receiving institution that sent the NOC.

Miscellaneous Rules Changes

Errors, (e.g., all blanks or zeroes) in the Company Name or Company Entry Description fields of the Batch Header Record, will result in batch level rejection rather than item level rejection.

The Rules changes identified below require new edits that, if failed, will cause an item to be rejected and returned by the ACH operator.

Addenda Type Code 01 is no longer a valid addenda type code.

The Addenda Information Field (positions 36-79) of a Notification of Change (COR) item addenda record (addenda type code 98) is a mandatory field. The field must contain at least one alphanumeric character.

The Addenda Record Indicator (position 79) in the entry detail record for Notifications of Change, return items, and MTE/POS/SHR entries other than prenotes, must be equal to 1.

Change codes C06, C07, and C08 in a COR addenda record are now reserved and are not available for use.

SHR entries must not have blanks or zeroes in the Card Transaction Type Code field (positions 77-78) of the entry detail record.

1989 FEDERAL RESERVE PRICING CHANGES

The night cycle surcharge on automated return items will be eliminated.

Special Notes for PC Users

The Dallas Fed will issue a new version of the ADVANCE PC software around April 7 to support most of the changes discussed previously in this circular. Edits for the Standard Entry Class Code and removal of support for Addenda Type 01 and change codes C06, C07 and C08 will be in the new release of ADVANCE, but the software will not support the refusal of a Notification of Change. Other changes (Company Name or Company Entry Description edits and Addenda Information Field edits) have been supported in the ADVANCE software for several years.

Not all Standard Entry Class Codes and their associated formats have been supported in the ADVANCE software in the past. CTX and POS have not been supported in the past and SHR will now be added to the list of unsupported class codes and formats. The ADVANCE software has not supported these class codes and their formats because Eleventh District institutions have not expressed a need for them. Use of one or more of these class codes will result in edit errors and an inability to complete a batch using the invalid (POS, CTX, SHR) class code. Nonsupport of these three class codes means, of course, that ADVANCE users attempting to return items received with any of these three Standard Entry Class Codes will need to use another method for automating those items such as CATIE or returning the item to their local Federal Reserve office on paper for processing.

Because of the changes to the Standard Entry Class Code edits, we expect that for a few days some items will have to be returned to the Fed on paper or automated by the institution through CATIE or the dedicated terminal facility. Consider the case in which an institution receives an item for settlement on April 6 or 7 with a Standard Entry Class Code that is no longer valid and must return the item: Because the SEC was not edited prior to April 7, the batch containing the item was processed, but a return item batch with the now invalid SEC will reject. Although the receiving institution may normally automate its returns, it will have to return this item through the Fed using CATIE or the dedicated terminal service. Use of either facility will create an automated return with the "RET" SEC which will pass the SEC edits. Should your institution have need to return such an invalid debit item with a value of \$2,500 or more on or after April 7, and cannot automate it through CATIE or the dedicated terminal, be sure that you call the ACH department of the Federal Reserve Office that serves your institution and have the Fed create the return item for you. This action will be necessary to avoid a late return claim by the originator. (Please note that use of CATIE or the dedicated terminal ACH return facility will cause a SEC of "RET" to be used for return items, which allows institutions to automate these returns themselves and avoid the \$4.00 per item charge assessed by the Fed for converting paper returns.)

MORE INFORMATION

If you have any questions concerning the 1989 NACHA Rules changes or service enhancements described above, please contact:

Larry C. Ripley at the Dallas Office

Local: (214) 651-6118

Toll Free: TX (800) 442-7140, LA (800) 527-9200

Tracy Whitten or B. B. Sessions at the Dallas Office

Local: (214) 698-4349 or 651-6403

Toll Free: TX (800) 442-7140, LA (800) 527-9200

Eloise Guinn or Jane Pyke at the El Paso Office

Local: (915) 544-4730

Toll Free: TX (800) 592-1631, NM (800) 351-1012

Louis Moore or Lilia Hice at the Houston Office

Local: (713) 659-4433

Toll Free: (800) 392-4162

Carrie Perkins or Jennifer Pruitt at the San Antonio Office

Local: (512) 224-2141

Toll Free: (800) 292-5810

Sincerely yours,

A handwritten signature in black ink, appearing to read "William H. Waller". The signature is fluid and cursive, with a long horizontal stroke at the end.