



FEDERAL RESERVE BANK  
OF DALLAS

TONY J. SALVAGGIO  
FIRST VICE PRESIDENT

DALLAS, TEXAS  
75265-5906

December 1, 1993

Notice 93-124

**TO:** The Chief Operating Officer of  
each financial institution in the  
Eleventh Federal Reserve District

**SUBJECT**

Operating Circular 11  
(Automated Clearinghouse Operations)

**DETAILS**

The Federal Reserve regularly reviews the language in its uniform Automated Clearinghouse Operating (ACH) Circular and makes amendments to reflect changes in ACH rules or Federal Reserve operating practices. The following changes reflect the Board of Governors' adoption of new posting procedures for purposes of measuring daylight overdrafts and establishment of an all-electronic ACH.

- Paragraph 4(i) has been revised to change the terminology excluding settlement wires from coverage of Article 4A.
- A provision has been added to paragraph 12 to state what a Reserve Bank will do if it suspects that a file is a duplicate.
- Paragraphs 15, 17, and 38 and Appendix 1 reflect the fact that the ACH is all-electronic as of July 1, 1993.
- Paragraphs 23, 25, and 39 have been revised to reflect the Board's intraday posting policy.
- Appendix 2 has been amended to reflect the new processing schedule.

**ENCLOSURE**

Enclosed is Operating Circular 11. Please file it in your Operating Circulars (Bulletins) binder and discard the old version.

**MORE INFORMATION**

For more information, please contact Jonnie Miller at (214) 922-6433 or (800) 333-4460, extension 6433. For additional copies of this Bank's notice or Operating Circular 11, please contact the Public Affairs Department at (214) 922-5254.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tomp A. Salysie". The signature is written in dark ink and is positioned below the word "Sincerely,".

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# Operating Circular

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F e d e r a l   R e s e r v e   B a n k   o f   D a l l a s

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**11**

**Automated  
Clearinghouse  
Operations**

# Scope

Operating Circular 11 governs the clearing and settlement of automated clearinghouse (ACH) credit and debit items—including credit items subject to Article 4A of the Uniform Commercial Code—by this Bank, sending institutions, and receiving institutions. Government ACH items are governed by Fiscal Agency Operating Circular 3, titled *Federal Payments by the Automated Clearinghouse Method*, instead of by this Operating Circular.

Operating Circular 11 is issued pursuant to Sections 4, 11A, 13, 16, and 19 of the Federal Reserve Act and related statutes. With respect to items other than credit items subject to Article 4A, this Operating Circular is binding on sending institutions that send items to this Bank, receiving institutions that receive items from this Bank, account holders agreeing to settle for items under this Operating Circular, and other parties interested in an item that agree to this Operating Circular or that are otherwise bound by it. The provisions of Article 4A of the Uniform Commercial Code are incorporated in this Operating Circular with respect to credit items subject to Article 4A. In the event of inconsistency between the provisions of this Operating Circular and Article 4A with respect to a credit item subject to Article 4A, the provisions of this Operating Circular shall control. As regards credit items subject to Article 4A, this Operating Circular is an operating circular as referred to in Section 4A-107 and is not a funds transfer system rule as defined in Article 4A. Nevertheless, this Operating Circular governs the rights and obligations of parties to a funds transfer subject to Article 4A to the same extent as if this Operating Circular were a funds transfer system rule. Under Article 4A, this Operating Circular is binding on parties to an item besides the sending and receiving institutions if the parties have notice that the Federal Reserve Banks' funds transfer system might be used for the transaction and that this Operating Circular will apply, unless those other parties have agreed otherwise.

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## AUTOMATED CLEARINGHOUSE OPERATIONS (*continued*)

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## GENERAL

1. The following rules and agreements, as amended from time to time, are incorporated in this Operating Circular as the applicable automated clearinghouse (ACH) rules with respect to items, regardless of whether the sending institution or receiving institution is a member of an ACH association:

- A. the Operating Rules of the National Automated Clearing House Association, unless other rules apply under subparagraph B, and
- B. the Operating Rules of the South-Western Automated Clearing House Association (SWACHA) to the extent such rules (1) bind both the sending institution and the receiving institution or (2) in the case of a transaction involving a nonmember of an ACH association, generally apply to transactions within the region where the sending institution and the receiving institution are domiciled.

2. This Operating Circular preempts or supersedes the applicable ACH rules or other arrangements among parties to ACH items only to the extent that the provisions of those arrangements are inconsistent with this Operating Circular.

3. Each Federal Reserve Bank issues an operating circular substantially similar to this one with the exception of the Federal Reserve Bank of New York, which issues a circular providing for limited processing of items. When we send an item to another Reserve Bank, that Reserve Bank handles the item subject to its circular.

## DEFINITIONS

4. In this Operating Circular, the following definitions apply:

- A. “Account holder” means an institution that maintains at a Federal Reserve Bank an account used for the settlement of items either on its own behalf or on behalf of a sending institution or a receiving institution.
- B. “Actually and finally collected funds” means cash or any other form of

payment that is, or has become, final and irrevocable.

- C. “Applicable ACH rules” means the rules and agreements that are designated by a Federal Reserve Bank in its operating circular as applicable to designated ACH transactions. “Applicable ACH rules” does not include provisions in ACH rules that (1) are in conflict with applicable law; (2) with respect to credit items subject to Article 4A, are in conflict with provisions of Article 4A that may not be varied; (3) limit the applicability of the ACH rules to members of an ACH association; (4) require dues or fees (other than a reasonable fee for copies of the ACH rules); (5) require execution of agreements by participating institutions, such as settlement or indemnity agreements; (6) govern arbitration of disputes among participants; or (7) provide for payment of legal expenses to an ACH association in suits against the association. This Operating Circular does not affect the applicability of these provisions to members of the ACH association.
- D. “Article 4A” means Article 4A of the Uniform Commercial Code as set forth in Appendix B to Subpart B of Regulation J, 12 C.F.R. Part 210. It includes provisions of Article 1 referred to in Article 4A, as approved from time to time by the National Conference of Commissioners on Uniform State Laws and the American Law Institute.
- E. “As-of adjustment” means a debit or a credit, for reserve- or clearing-balance maintenance purposes only, applied to the reserve or clearing balance of a sending or receiving institution in lieu of an interest charge or payment.
- F. “Automated clearinghouse” or “ACH” means a facility that clears debit and credit items for institutions.
- G. “Banking day” means the part of a day during which a Federal Reserve Bank, account holder, sending institution, or receiving institution is open for the receipt, processing, or transmittal of items. With respect to a credit item



subject to Article 4A, “banking day” means a funds transfer business day.

- H. “Credit item” means an item sent to a Federal Reserve Bank by a sending institution for debit to the sending institution’s account and for credit to a receiving institution’s account. Unless otherwise expressly stated, the term includes a credit item subject to Article 4A.
- I. “Credit item subject to Article 4A” means a credit item that is a payment order as defined in Article 4A. The term does not include an ACH credit transaction any part of which is governed by the Electronic Fund Transfer Act, as amended, a Reserve Bank settlement wire, or a non-dollar message, including a zero dollar return or a message designated as Transaction Code 23 or 33 (prenotification) or as standard entry Class COR (notification of change).
- J. “Debit item” means an item sent to a Federal Reserve Bank by a sending institution for credit to the sending institution’s account and for debit to a receiving institution’s account.
- K. “Effective date” means the date for settlement specified in an item by the sending institution (paragraph 21).
- L. “Effective date window” means the number of days after the processing date of the sending institution’s Federal Reserve Bank within which the effective date must fall (paragraph 21).
- M. “Institution” means (1) a depository institution as defined in Section 19(b) of the Federal Reserve Act (12 U.S.C. 461(b)); (2) a branch or agency of a foreign bank maintaining reserves under Section 7 of the International Banking Act of 1978 (12 U.S.C. 347d, 3105); (3) a department, agency, instrumentality, independent establishment, or office of the United States or a wholly owned or controlled government corporation; or (4) another entity for which a Federal Reserve Bank provides ACH services.
- N. “Item” means an instruction for the payment of money that is handled by a Federal Reserve Bank for processing or settlement under its ACH operating circular. “Item” does not include (1) an “item” as defined in Section 210.2 of Regulation J that is handled under Subpart A, governing the collection of checks and other items; (2) a “payment order” as defined in Section 210.26 of Regulation J that is handled under Subpart B, governing funds transfers through Fedwire; (3) a payment instruction subject to 31 C.F.R. Part 210 or Part 370 or to other Treasury Department regulations governing federal payments by the ACH method; or (4) a wire transfer of securities by this Bank. Unless the context requires otherwise, the term covers a credit item and a debit item.
- O. “Receiving institution” means an institution designated in an item to receive the item from a Federal Reserve Bank. With respect to a credit item subject to Article 4A, “receiving institution” may include a beneficiary as defined in Article 4A.
- P. “Receiving institution’s local Reserve Bank” means the Federal Reserve Bank in whose District the address associated with the routing number of the receiving institution is located.
- Q. “Sending institution” means an institution designated in an item as originating the item.
- R. “Sending institution’s account” or “receiving institution’s account” means the account at a Federal Reserve Bank that the sending institution or receiving institution, respectively, maintains (or uses under an arrangement between the Reserve Bank and another institution) for settlement of items.
- S. “Sending institution’s local Reserve Bank” means the Federal Reserve Bank in whose District the address associated with the routing number of the sending institution is located. The sending institution’s local Reserve Bank is the same as the sending institution’s Reserve Bank except with respect to an item sent remotely (that is, sent by a sending institution in one Federal Reserve

Bank's District to another Federal Reserve Bank).

- T. "Sending institution's Reserve Bank" means the Federal Reserve Bank to which a sending institution sends an item pursuant to the Reserve Bank's operating circular.
- U. "Settlement date" means the date for settlement of an item as provided in this Operating Circular.

## SENDING CREDIT AND DEBIT ITEMS

5. A sending institution that maintains or uses an account at a Reserve Bank for settlement of items may send an item to this Bank, provided (a) the sending institution has been authorized to do so by the sending institution's local Reserve Bank and (b) the receiving institution maintains or uses an account at a Reserve Bank for settlement of items and has been authorized to receive items by the receiving institution's local Reserve Bank. A sending institution may designate another entity to deliver its items to a Reserve Bank, but that entity is the sending institution's agent and is not a sender or receiving bank, as defined in Article 4A, or a party to the item. The action of the sending institution's agent in sending items is the action of the sending institution itself, including but not limited to action of the agent with respect to security procedures. With respect to an item that is sent remotely by the sending institution to another Reserve Bank, the sending institution's local Reserve Bank is not a sender or receiving bank, as defined in Article 4A, or a party to the item.

6. An item must be in the media prescribed by this Bank and in the format prescribed by the applicable ACH rules.

## SECURITY PROCEDURES

7. The security procedures we offer to verify the authenticity of the source of an item are described in Appendix 1 to this Operating Circular. Before issuing an item to a Reserve Bank, an institution must execute an agreement with its local Reserve Bank in the form shown in Appendix 1-A of that Reserve Bank's operating circular. If a sending institution issues an item through an agent, the agent must also execute an agreement in the same form with the sending institution's local Reserve Bank. A sending institution is

deemed to agree to a security procedure used in issuing an item to this Bank.

8. Each sending and receiving institution shall prevent any disclosure, except on a "need to know" basis, of any aspects of the security procedures it agrees to with this Bank. The sending or receiving institution shall notify us immediately if the confidentiality of these security procedures is compromised and shall act to prevent the security procedures from being further compromised.

## SENDING INSTITUTION'S AGREEMENTS

9. By sending an item to a Reserve Bank, the sending institution

- A. agrees to comply with the applicable ACH rules and agrees that those rules shall govern the relationships among the sending institution, the receiving institution, and other parties interested in the item and covered by those rules;
- B. authorizes the Reserve Banks to process the item in accordance with their ACH operating circulars;
- C. authorizes the Reserve Bank holding the sending institution's account to debit the amount of a credit item, or credit the amount of a debit item, to the sending institution's account on the settlement date; and
- D. agrees to indemnify each Reserve Bank processing or settling for the item for any loss or expense (including attorneys' fees and expenses of litigation) incurred by the Reserve Bank as a result of any action taken with respect to the item by the Reserve Bank in accordance with the Reserve Bank's operating circular.

10. The agreements, authorizations, and indemnity in paragraph 9 do not limit any other agreement, authorization, or indemnity, not inconsistent with paragraph 9, made by a sending institution with a receiving institution, a Reserve Bank, or another entity.

11. A sending institution's local Reserve Bank may require a sending institution to execute the agreement in Appendix 3-A or Appendix 3-B and to give the Reserve Bank prior notice and

separate sorts by settlement date of credit and debit items to be sent to any Reserve Bank. The sending institution's local Reserve Bank also may require the sending institution to provide pre-funding for, and may substitute itself for the sending institution with respect to, a credit item in accordance with the agreement if the Reserve Bank judges that there may not be sufficient funds in the sending institution's account on the settlement date to cover the sending institution's obligations.

## PROCESSING OF ITEMS

12. We process items in accordance with the applicable ACH rules and this Operating Circular. We may reject, or may impose conditions to our processing of, any item for any reason. We are not bound by instructions to us in an item other than information required by our format specifications. If we notify a sending institution or its agent of the receipt of a suspected duplicate file or any other problem, we will not process the file without approval by the sending institution or its agent. Except as expressly provided in this Operating Circular, we do not have or assume any responsibility for compliance by a sending or receiving institution with the applicable ACH rules. We may record by audio recording device any telephone call relating to an item.

12A. We send an acknowledgment to the sending institution or its agent that we have received ACH files by electronic transmission and have performed limited processing of the files, as provided in applicable ACH rules. An acknowledgment does not mean that we have accepted, and will not reject, the items contained in the files. The sending institution is responsible for verifying the information in the acknowledgment and notifying us immediately of any discrepancy and for notifying us promptly of nonreceipt of an acknowledgment. See paragraph 43.

13. As a sending institution's Reserve Bank, we process an item we receive and then send it or make it available to the receiving institution or, if applicable, to the receiving institution's local Reserve Bank. The receiving institution's local Reserve Bank processes the item and sends or makes it available to the receiving institution.

14. A sending institution must designate the receiving institution by routing number. This Bank is not responsible for the accuracy of a routing number contained in and/or verbally

supplied from a publication, list, or automated file issued or maintained by a Reserve Bank if the routing number becomes inaccurate after the effective date of the publication, list, or automated file. A Reserve Bank may process an item on the basis of a routing number of a receiving institution appearing in any form on the item when received and is not responsible for any loss or delay resulting from acting on the number, whether or not the number is consistent with any other designation of the receiving institution on the item, if the Reserve Bank does not know of the inconsistency in designation.

## DELIVERY OF ITEMS

15. By prior arrangement with a receiving institution, we send items by electronic means to the receiving institution or to a location designated by the receiving institution. In emergency circumstances, we deliver items by the same means and to the same location to which we send cash items for the receiving institution or by other means, as arranged with the receiving institution. A Reserve Bank (other than the sending institution's Reserve Bank) that assists the receiving institution's local Reserve Bank in sending items to the receiving institution is not a sender or receiving bank, as defined in Article 4A, or a party to the items.

16. An entity other than the receiving institution to which the receiving institution requests that items be sent or be made available for pickup is the receiving institution's agent and is not a sender or receiving bank, as defined in Article 4A, or a party to the items. The action of the receiving institution's agent in receiving items is the action of the receiving institution itself, including but not limited to any action with respect to security procedures. A receiving institution should advise us promptly by telephone if it does not receive a delivery of items by the expected delivery date.

17. A receiving institution that receives delivery of items by courier or by mail in emergency circumstances is considered to receive items, for purposes of settlement, by the date the items are available for pickup by, or for electronic transmission or telephone advice to, the receiving institution. The receiving institution may request, for a fee, that we provide it by telephone on the settlement date with sufficient information about an item for which it is designated the receiving institution to enable it to post the item to its customer's account.

18. A receiving institution must manage its communications connection so as to permit it to receive, on a timely basis, items sent to it during its banking day.

19. A receiving institution agrees to indemnify us for any loss we incur as a result of its delay in receiving an item if the delay results from the institution's failure to be able to receive delivery of items from us as provided in this Operating Circular.

### **TIME SCHEDULES, SETTLEMENT DATES, AND EXTENSIONS OF TIME LIMITS**

20. Our time schedule (Appendix 2) shows our banking days and the cutoff hours for this Bank's receipt of credit and debit items of various classes. If we receive an item after a cutoff hour, we process it as if received by our next applicable cutoff hour except that we may, in our discretion, process it as if received by the earlier cutoff hour.

21. An item should specify an effective date that is within the effective date window shown for that class of item. If the specified effective date is later than the effective date window, we will reject and return the item. Our time schedule also shows the settlement date for an item that specifies

- A. no effective date;
- B. a settlement date that is not a banking day for the sending institution or the receiving institution or for a Reserve Bank involved in the transaction; or
- C. an effective date the same as or earlier than the processing date of the sending institution's Reserve Bank.

22. We process an item in accordance with our processing schedules and send it to the receiving bank on or before the settlement date. If, because of circumstances beyond our control, we are delayed beyond the applicable time limit in acting on the item (other than a credit item subject to Article 4A), the time for acting is extended to the time necessary to complete the action, provided we exercise such diligence as the circumstances require.

### **SETTLEMENT**

23. On the settlement date, the Reserve Bank that maintains the sending institution's account debits or credits the sending institution's account in the amount of a debit or credit item, and the Reserve Bank that maintains the receiving institution's account credits or debits the receiving institution's account in the amount of the credit or debit item. Settlement for credit items must be made by the sending institution at 8:30 a.m. Eastern Time, and credit for credit items is available for withdrawal or other use by the receiving institution at that time, subject to the provisions of this Operating Circular. Settlement for debit items must be made by the receiving institution at 11:00 a.m. Eastern Time, and credit for debit items is available for withdrawal or other use by the sending institution at that time, subject to the provisions of this Operating Circular. Settlement for immediate settlement items (including return items as provided in our time schedule) must be made at 5:00 p.m. Eastern Time, and credit for immediate settlement items is available for withdrawal or other use at that time, subject to the provisions of this Operating Circular.

#### *Overdrafts*

24. An account holder does not have a right to an overdraft in its account. In the event an overdraft is created, the overdraft shall be due and payable immediately, without the need for a demand by the Reserve Bank, at the earliest of the following times:

- A. at the end of the Reserve Bank's funds transfer business day for purposes of Fedwire (Regulation J, 12 C.F.R. 210, Subpart B);
- B. at the time the Reserve Bank, in its discretion, deems itself insecure and gives notice thereof to the account holder; or
- C. at the time the account holder suspends payments or is closed.

25. An account holder shall have in its account, at the time an overdraft is due and payable, a balance of actually and finally collected funds sufficient to cover the aggregate amount of all its obligations to the Reserve Bank, whether the obligations result from an item for which the account holder is obliged to settle or otherwise. If



an account holder incurs an overdraft in its account, the account will be subject to any applicable overdraft charges, regardless of whether the overdraft has become due and payable.

#### *Security Agreement*

26. To secure any overdraft, as well as any other obligation due or to become due to its Reserve Bank, an account holder grants to the Reserve Bank a security interest in all the account holder's assets in the possession of, or held for the account of, the Reserve Bank. The security interest attaches when an overdraft or other obligation becomes due and payable.

27. A Reserve Bank may take any action authorized by law to recover the amount of an overdraft that is due and payable, including but not limited to the exercise of rights of setoff, the realization on any available collateral, and any other rights it may have as a creditor under applicable law. If a sending or receiving institution uses another institution's account for settlement, the Reserve Bank may also, in its discretion, recover the unpaid balance of the sending or receiving institution's obligation with respect to an item from the sending institution or receiving institution, respectively, without prior notice or demand.

#### *Revocation of Settlement*

28. We may cease processing or settling for a credit item if the Reserve Bank at which the sending institution's account is maintained judges, in its discretion, that there may not be sufficient funds in the account on the settlement date to cover the item.

29. We may, in our discretion, cease processing or settling for an item after we receive notice of the suspension or closing of the sending or receiving institution. In the event of the suspension or closing of an account holder whose account the sending or receiving institution uses for settlement or in the event of the termination of the account holder's Settlement Agreement, the sending or receiving institution must designate another account for settlement. If we cease processing or settling for a credit or debit item as provided in paragraph 28 or in this paragraph, we will notify the sending institution and the receiving institution to which we have sent the item (or the appropriate Reserve Bank(s), which

will notify the sending institution and the receiving institution) of nonpayment of the item.

### **AVAILABILITY OF CREDIT**

#### *Debit Items*

30. A Reserve Bank may refuse to permit credit to be given for a debit item if it judges that there may not be sufficient funds in the sending institution's account to cover charge-back or return of the item. If a Reserve Bank does not receive actually and finally collected funds in settlement of a debit item at or before the opening of business on the banking day following the settlement date, the Reserve Bank may reverse the debit and credit previously made in settlement of the item and will notify the sending institution and the receiving institution (and the account holder(s) whose account the institution(s) uses for settlement) or the appropriate Reserve Bank(s), which will notify the sending institution and the receiving institution (and account holder, if any) of the reversal.

#### *Credit Items*

31. Credit given by a Reserve Bank to a receiving institution for a credit item is available for use on the settlement date, subject to paragraphs 28 and 29 and subject to the Reserve Bank's right to apply the funds to any obligation the receiving institution owes it.

32. Subject to paragraphs 28 through 31, credit given by us qualifies as reserves for purposes of Regulation D (12 C.F.R. Part 204).

### **SETTLEMENT AGREEMENTS**

33. Before sending an item to or receiving an item from a Reserve Bank, a sending or receiving institution (and an account holder, if the sending or receiving institution desires to use that other institution's account for settlement of items) must execute a Settlement Agreement, as provided in Appendix 4.

### **RECEIVING INSTITUTION'S AGREEMENTS**

34. A receiving institution, by maintaining or using an account with a Reserve Bank for settlement of items or by accepting an item from this Bank,

- A. agrees to comply with the applicable ACH rules and agrees that those rules shall govern the relationships among the sending institution, the receiving institution, and other parties interested in the item and covered by those rules;
- B. agrees to process the item in accordance with this Operating Circular;
- C. authorizes the Reserve Bank holding the receiving institution's account to credit the amount of a credit item, or debit the amount of a debit item, to the receiving institution's account on the settlement date; and
- D. agrees to indemnify each Reserve Bank processing or settling for the item for any loss or expense (including attorneys' fees and expenses of litigation) incurred as a result of a breach of the foregoing agreements or of any action taken by the Reserve Bank holding the receiving institution's account in accordance with the foregoing authorization.

35. The agreements, authorization, and indemnity in paragraph 34 do not limit any other agreement, authorization, or indemnity, not inconsistent with paragraph 34, made by a receiving institution to a sending institution, a Reserve Bank, or another entity.

## REVOCATION OF ITEMS

36. A sending institution or prior party may not amend or revoke an item after it has been received by a Reserve Bank, except as provided in the applicable ACH rules.

37. We may cancel items by initiating a reversing batch of items, in accordance with the applicable ACH rules, if we discover that we sent a duplicate or erroneous batch of items. We will notify the sending institution (or the sending institution's local Reserve Bank, which will notify the sending institution) accordingly. Nothing in this Operating Circular constitutes a waiver by us of a right of recovery under the applicable law of mistake and restitution.

## RETURN OF ITEMS AND FUNDS

38. A receiving institution may return a debit or credit item to the receiving institution's local Reserve Bank in accordance with the applicable

ACH rules. A receiving institution may also send a return to any other Reserve Bank to which it is authorized to send items. A receiving institution must return a credit or debit item received from this Bank by returning the item, in the manner provided in the applicable ACH rules, by the cutoff hour set forth in the Reserve Bank's time schedule. The receiving institution is accountable for the amount of a debit item if the Reserve Bank does not receive the item by that cutoff hour. The receiving institution's Reserve Bank will convert a paper return item to automated form. The receiving institution's local Reserve Bank will accept a return debit item in an amount of \$2,500 or more by telephone and convert it to automated form.

39. A Reserve Bank that receives a return item will send it to the sending institution (or to the sending institution's local Reserve Bank, which will send it to the sending institution). The Reserve Bank that maintains the sending institution's account will debit or credit the sending institution's account in the amount of a return debit or credit item, and the Reserve Bank that maintains the receiving institution's account will credit or debit the receiving institution's account in the amount of the return credit or debit item at 5:00 p.m. Eastern Time, subject to the provisions of this Operating Circular.

40. A receiving institution should keep records that permit it to identify the source of items it receives. By sending a return item to us, a receiving institution (a) warrants to us, to the sending institution's Reserve Bank, and to the sending institution that we sent the item to the receiving institution; (b) agrees, on request, to provide us with records showing that we sent the item to it; and (c) agrees to indemnify us and the sending institution's Reserve Bank for loss resulting from a breach of the foregoing warranty or agreement.

## DISPUTED RETURNS

41. If a sending institution disputes the propriety of a return item one time in accordance with the applicable ACH rules, the Reserve Bank(s) maintaining the sending institution's and the receiving institution's accounts will provisionally settle for the disputed return. If the receiving institution disputes the sending institution's claim in accordance with the applicable ACH rules, the Reserve Bank(s) maintaining the receiving institution's and the sending institution's accounts will reverse the provisional settlement for the disputed return.

## **ADVICES OF CREDIT AND DEBIT; REPORTING OF ERRORS**

42. We provide, in a statement, advices of credit and debit to an account holder for items for which it has agreed to settle. An advice of credit indicates that credit has been given, subject to the provisions of this Operating Circular. By prior arrangement with a sending or receiving institution, we also provide advices to a party other than that institution or an account holder, as the sending or receiving institution's agent, in accordance with paragraph 15 of this Operating Circular. An account holder and a sending or receiving institution using an account holder's account for settlement agree that a reasonable time to notify a Reserve Bank concerning an unauthorized or erroneously executed item is within 30 calendar days after the account holder receives an advice of debit. Notice after that time may constitute the failure to exercise ordinary care, precluding the recovery by the institution of interest (with respect to credit items subject to Article 4A) and other damages (with respect to other items).

43. In addition to the requirement for prompt notice under paragraph 42 and Sections 4A-204 and 4A-304 of Article 4A, a sending institution, receiving institution, or account holder shall notify us immediately if it learns of or discovers, from any source other than an advice of debit from this Bank, the possibility of error or lack of authority in the transmission or processing of an item. See also paragraph 8.

## **RECORDS**

44. Each sending and receiving institution should keep records that permit it to resolve questions that arise concerning the handling of items and to resend items if we notify it that the items have been lost because of a computer outage or other reason. We keep records of items processed by us only for one year after the settlement date.

## **FEEES**

45. This Bank's fee schedule shows the charges imposed for processing and settlement of items. We may make the charge to the sending institution's account or the receiving institution's account, as shown in the schedule, or as otherwise agreed.

## **NON-VALUE MESSAGES**

46. We handle a message that does not result in an accounting entry, such as a prenotification or notification of change, as an item under this Operating Circular except that no funds are transferred. A Reserve Bank's liability for damage caused by its failure to exercise ordinary care, or by its own or its employees' willful misconduct, in processing a non-value message may not exceed the amount of any fee paid to a Reserve Bank for the message.

## **RESERVE BANK LIABILITY: ITEM OTHER THAN CREDIT ITEM SUBJECT TO ARTICLE 4A**

### *Limitations on Liability*

47. With respect to an item other than a credit item subject to Article 4A,
- A. this Bank is responsible or liable only to a sending institution, a receiving institution, or another Reserve Bank and only for our own failure to exercise ordinary care or for our own or our employees' willful misconduct;
  - B. this Bank does not act as the agent or subagent of another institution or entity and is not liable for the insolvency, neglect, misconduct, mistake, or default of another institution or entity;
  - C. this Bank does not make any warranty with respect to an item it processes or settles for under this Operating Circular; and
  - D. no person may make a claim against this Bank for loss resulting from this Bank's processing of or settling for an item after one year from the settlement date of the item. If an account holder does not send us written objection to an advice of debit within one year after receipt of the advice, it is deemed to approve the debit on its own behalf and on behalf of a sending or receiving institution using the account for settlement.

### *Measure of Damages*

48. The measure of damages for this Bank's failure to exercise ordinary care, or for our own

or our employees' willful misconduct, is as follows:

- A. For a credit item (including a return credit item but excluding a credit item subject to Article 4A), our liability is limited to damages that are attributable directly and immediately to the failure to exercise ordinary care or to the willful misconduct and does not include damages that are attributable to the consequences of such conduct, even if such consequences were foreseeable at the time of the conduct.
- B. For a debit item (including a return debit item), our liability for our failure to exercise ordinary care is limited to the amount of the item reduced by an amount that could not have been realized by the use of ordinary care. When there is willful misconduct with respect to a debit item, the measure of damages includes other damages that are attributable directly and immediately to the willful misconduct but does not include damages that are attributable to the consequences of such misconduct, even if such consequences were foreseeable at the time of the misconduct.

**RESERVE BANK LIABILITY: CREDIT ITEM SUBJECT TO ARTICLE 4A**

49. Except as otherwise provided in this Operating Circular, a Reserve Bank's liability with respect to a credit item subject to Article 4A is governed by Article 4A. A Reserve Bank shall not be liable with respect to a credit item subject to Article 4A for any damages other than those payable under Article 4A. A Reserve Bank shall not agree to be liable for consequential damages with respect to a credit item subject to Article 4A under Section 4A-305(d) of Article 4A.

50. This Bank may, in its discretion, satisfy its or another Reserve Bank's obligation to pay compensation in the form of interest under Article 4A

- A. by providing an as-of adjustment to a sending or receiving institution in an amount equal to the amount on which interest is to be calculated, multiplied by the number of days for which interest is to be calculated; or

- B. by paying compensation in the form of interest to a sending institution, receiving institution, or another party to the item that is entitled to such payment, in an amount calculated in accordance with Section 4A-506 of Article 4A.

51. If a sending or receiving institution that receives an as-of adjustment in the form of a credit, or an interest payment, is not the party entitled to compensation under Article 4A, the institution shall pass through the benefit of the as-of adjustment or interest payment by making an interest payment, as of the day the as-of adjustment or interest payment is made, to the party entitled to compensation. The interest payment that is made to the party entitled to compensation shall not be less than the value of the as-of adjustment or interest payment that the Reserve Bank provided to the sending or receiving institution. The party entitled to compensation may agree to accept compensation in a form other than a direct interest payment, if the alternative form of compensation is not less than the value of the interest payment that otherwise would be made.

52. We may make an as-of adjustment pursuant to paragraph 50 as follows:

- A. We will normally process and apply an as-of adjustment to the reserve maintenance period during which the transaction giving rise to the obligation to pay interest occurred, so that there will be no impact on aggregate reserves. If we determine that action is not feasible, in our sole discretion, we will process and apply the as-of adjustment to the current reserve period.
- B. If an as-of adjustment would be applied to one of the last three days of a reserve maintenance period, we may apply it to either the current reserve period or future reserve maintenance periods.
- C. If we delay execution of a credit item subject to Article 4A (see Section 4A-305(a) of Article 4A), we may make an as-of credit adjustment to the receiving institution's account. If the sending institution was not debited at the appropriate time, we will make an offsetting as-of debit adjustment to the sending institution's account.



- D. If we misdirect a credit item subject to Article 4A (see Sections 4A-303(c) and 4A-305(b) of Article 4A), we may make an as-of credit adjustment to the account of the institution that should have received the order. If agreed by the institution that received the misdirected order, we will make an offsetting as-of debit adjustment to the receiving institution's account.
- E. If we send a credit item subject to Article 4A in an amount less than the amount that was intended (see Sections 4A-303(b) and 4A-305(b) of Article 4A), we may make an as-of credit adjustment to the receiving institution's account. If the sending institution was not debited in the appropriate amount, we will make an as-of debit adjustment to the sending institution's account.
- F. If we issue a duplicate credit item subject to Article 4A or a credit item subject to Article 4A that amounts to more than was intended (see Sections 4A-303(a) and 4A-305(b) of Article 4A), we may, if the sending institution's account was not debited in the appropriate amount, make an as-of credit adjustment to the sending institution's account. If agreed by the institution that received the order, we will make an as-of debit adjustment to the receiving institution's account.
- G. If we delay rejection of a credit item subject to Article 4A (see Sections 4A-209(b) and 4A-210(b) of Article 4A), we may make an as-of credit adjustment to the sending institution's account.
- H. We will apply offsetting as-of adjustments to the same reserve maintenance period to the extent feasible.

#### **RECOVERY BY RESERVE BANK**

- 53. If an action or proceeding is brought against a Reserve Bank,
  - A. based on an alleged breach of, or an alleged failure to have the authority to make, any of the authorizations and agreements referred to in paragraphs 9 and 34 of this Operating Circular, or an alleged breach of the applicable ACH rules by the sending institution, the re-

ceiving institution, or another Reserve Bank, or

- B. based on any action by the Reserve Bank in accordance with its operating circular,

the Reserve Bank may recover from the sending institution, the receiving institution, or the other Reserve Bank, as the case may be, any amount the Reserve Bank is required to pay under a final judgment or decree, together with interest, as well as the amount of attorneys' fees and other expenses of litigation incurred.

54. The Reserve Bank may recover the amount specified in paragraph 53 by charging the sending or receiving institution's account (or if the item was received from, sent to, or settled through another Reserve Bank, by charging the other Reserve Bank)

- A. if the Reserve Bank has made timely written demand on the sending institution, the receiving institution, or the other Reserve Bank to assume defense of the action or proceeding; and
- B. if no other arrangement for payment acceptable to the Reserve Bank has been made.

A Reserve Bank that has been charged under this paragraph may recover from the sending or receiving institution in the manner and under the circumstances set forth in this paragraph. A Reserve Bank's failure to avail itself of the remedy provided in this paragraph does not prejudice its enforcement, in any other manner, of the indemnity agreements referred to in paragraphs 9 and 34.

#### **RIGHT TO AMEND**

55. We reserve the right to amend this Operating Circular at any time.

**APPENDIX 1  
ACH SECURITY PROCEDURES**

GENERAL

The following security procedures are offered by the Federal Reserve Banks to each sending institution that is authorized to send ACH items to a Reserve Bank for the purpose of verifying the authenticity of the source of the ACH items. The security procedures are not used to detect errors in the transmission or the content of ACH items.

LEVEL ONE SECURITY PROCEDURE

The Level One Security Procedure is available to any institution that issues or receives ACH items by means of an encrypted leased or dial-up communications line between its computer and a Reserve Bank's computer, utilizing a hardware-software system certified by the Reserve Bank.

The Level One Security Procedure is incorporated in the hardware and software associated with the computer. In general, the procedure includes access controls, such as the identification code and the confidential password that allow a customer to access a Reserve Bank's system, and also includes encryption of ACH items during the transmission process. The procedure is described more specifically in the Computer Interface Protocol Specification (CIPS) and the Fedline User's Guide, which are available from each Reserve Bank.

LEVEL TWO SECURITY PROCEDURE

The Level Two Security Procedure is available to any institution that issues ACH items to a Reserve Bank by electronic transmission that does not include both encryption and access controls. It is also used when an institution that normally issues ACH items under the Level One Security Procedure defined above is unable to do so because of an equipment or communications failure or other circumstances.

In the case of electronic transmission of ACH items, the Level Two Security Procedure is incorporated in the transmission process and, in general, includes either access controls or encryption. When ACH items are sent by magnetic tape, diskette, or electronic transmission that does not include either encryption or access controls, the Level Two Security Procedure includes a procedure whereby the sending institution or its agent provides file control information—for example, file identification, debit and credit dollar amounts, and entry-addenda count—to a Reserve Bank and the Reserve Bank then compares that information with the file(s) it actually receives. The control information may be provided by

1. Voice-Response if the Voice-Response system contains an access security feature; or
2. a telephone call using a code word; or
3. a transmittal register or a telephone call. When the control information is provided by this means, it will be verified by a callback from the Reserve Bank.

## APPENDIX 1-A

### ACH SECURITY PROCEDURES AGREEMENT

(Date)

Federal Reserve Bank of Dallas  
P.O. Box 655906  
Dallas, Texas 75265-5906

Attention: Manager  
ACH Operations

We agree to the provisions of the Reserve Bank's Operating Circular 11, titled *Automated Clearing-house Operations*, and its appendixes, as amended from time to time.

If we use an encrypted communications line with access controls for the transmission of ACH items to a Reserve Bank, we choose the Level One Security Procedure offered by the Reserve Banks as generally described in Appendix 1 to the circular, as such security procedure may be modified from time to time by the Reserve Banks. We also agree that this procedure will be used if we receive ACH items by means of an encrypted electronic communications line with access controls. This security procedure will be used for the purpose of verifying that we issued or received ACH items.

If we use a method other than an encrypted communications line with access controls for the transmission of ACH items, we reject the Level One Security Procedure and choose the Level Two Security Procedure generally described in Appendix 1 to the circular, as such security procedure may be modified from time to time by the Reserve Bank. This security procedure will be used for the purpose of verifying that we issued ACH items. We understand that the Level Two Security Procedure may be deemed commercially reasonable pursuant to Section 4A-202(c) of Article 4A of the Uniform Commercial Code.

Whenever we use a Reserve Bank's Level Two Security Procedure, we agree to be bound by any ACH item, whether or not authorized, issued in our name and accepted by the Reserve Bank in compliance with such procedure.

We understand that the Level One and Level Two Security Procedures will not be used to detect errors in the transmission or content of ACH items.

We also understand and agree that the security procedures established by this agreement may be changed only by an amendment to Appendix 1 or other written agreement. This agreement may not be changed by an oral agreement or by a course of dealing or custom.

\_\_\_\_\_  
Name of Institution/Agent

\_\_\_\_\_  
Nine-Digit Routing/Transit ABA Number

By: \_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Title

**APPENDIX 2**

**TIME SCHEDULE FOR AUTOMATED CLEARINGHOUSE ITEMS**

CUTOFF HOURS

This time schedule shows the closing hours for this Bank's receipt of ACH formatted files containing debit and/or credit items of various classes, including paper returns and notifications of change (NOCs), as well as return debit items of \$2,500 or more.

**CLOSING TIMES (EASTERN TIME)<sup>1</sup>**

	<u>Exchange 1</u>	<u>Exchange 2</u>	<u>Exchange 3</u>	<u>Exchange 4</u>
Interregional items				
Mixed	9:30 a.m.	12:30 p.m.	6:30 p.m.	1:30 a.m.
Presort	10:00 a.m.	1:00 p.m.	7:00 p.m.	2:00 a.m.
Intraregional items	11:00 a.m.	2:00 p.m.	8:00 p.m.	3:00 a.m.
Paper returns (other than debit items of \$2,500 or more) and NOCs	8:00 a.m.			
Contested returns	8:00 a.m.			6:00 p.m.
Automated return debit items of \$2,500 or more				Applicable Exchange 4 closing time corresponding to the receiving institution's banking day following the settlement date or following receipt of the item, whichever is later
Paper return debit items of \$2,500 or more				8:00 p.m. on the receiving institution's banking day following the settlement date or following receipt of the item, whichever is later
Submitted				
By paper		8:00 a.m.		
By telephone		Noon		

<sup>1</sup>Closing times represent the end of the deposit window. Files must be completely received (that is, data transmission must be fully concluded) by the closing time. Sending institutions using data transmission, especially those having large and/or variable volumes of deposits, should coordinate the beginning of their transmission within the window to ensure file completion by the closing time. Presort deposits of 500,000 items or more per exchange must be received one-half hour earlier than the indicated deadline.

*(Appendix 2 continued on the next page)*

**APPENDIX 2** *(continued)*

EFFECTIVE DATE WINDOWS

Items—other than returns, NOCs, and NACS (National Association for Check Safekeeping) items—should specify an effective date within the following effective date windows, computed from our processing date.

<b>Class</b>	<b>Effective Date Window</b>
Credit items	One (1) or two (2) banking days
Debit items	One (1) banking day only

Items with an effective date later than the effective date window will be returned to the sender.

SETTLEMENT DATES

If an effective date is not specified or if an item specifies an effective date the same as or earlier than this Bank's processing date, the settlement date is the banking day following our processing date. The settlement date for immediate settlement items (returns and NACS items) is the banking day of processing if received by the applicable Exchange 2 closing time or the next banking day if received by the third or fourth exchange. In the event of Reserve Bank operating problems, some other items may also be included as immediate settlement items.

If an item specifies a settlement date that is a standard Reserve Bank holiday, the settlement date is the next banking day for this Bank.

If an item specifies a settlement date that is not a banking day for the sending institution or the receiving institution, settlement is effected, with respect to that party, as follows:

*ACH DEBIT ITEMS*

Sending institution closed: Credit sending institution's account on settlement date.

Receiving institution closed: Debit receiving institution's account on settlement date, or receiving institution may choose next-day debit with as-of adjustment or explicit charge for float.

*ACH CREDIT ITEMS*

Sending institution closed: Debit sending institution's account on settlement date.

Receiving institution closed: Credit receiving institution's account on settlement date.

The receiving institution is not considered to receive an item made available to it on a day it is closed until its next banking day for purposes of determining the deadline for return.

**APPENDIX 2** *(continued)*

**BANKING DAYS**

Our banking days are all days except the following standard holidays that are observed by Reserve Banks:<sup>2</sup>

- All Saturdays
- All Sundays
- New Year's Day (January 1)
- Martin Luther King, Jr. Day (third Monday in January)
- Presidents Day (third Monday in February)
- Memorial Day (last Monday in May)
- Independence Day (July 4)
- Labor Day (first Monday in September)
- Columbus Day (second Monday in October)
- Veterans Day (November 11)
- Thanksgiving Day (fourth Thursday in November)
- Christmas Day (December 25)

If January 1, July 4, November 11, or December 25 falls on a Sunday, the next following Monday is a standard Reserve Bank holiday.

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<sup>2</sup> The New Orleans Branch of the Federal Reserve Bank of Atlanta closes on Mardi Gras.

**APPENDIX 3**

**AGREEMENT CONCERNING ACH CREDIT  
ORIGINATIONS BY CERTAIN SENDING INSTITUTIONS**

GENERAL

Certain sending institutions that send ACH items to the Federal Reserve Bank of Dallas ("this Bank") may experience financial difficulties.

If a sending institution fails to settle for ACH items sent previously, there is a significant risk of loss to other participants in the ACH system and a significant risk of disruption of the ACH system.

To reduce the risk of loss or disruption, a sending institution that has been identified as presenting a high risk of disruption to the payments system agrees to take steps to permit its ACH credit items to be monitored and to be settled at the time of receipt by the Reserve Bank.

Accordingly, this Bank and the sending institution agree to the following.

DEFINITIONS

For all purposes of this agreement,

"Sending institution" means a sending institution that has been identified by this Bank as having financial difficulties and that has agreed to the terms of this agreement by executing the letter in Appendix 3-A or Appendix 3-B.

"Notice of Origination" means a written or electronic statement showing, by settlement date, the total amount of all credit items to be originated and the total amount of all debit items to be originated by the sending institution for a given ACH cycle.

"Prefund" means to pay, in actually and finally collected funds, to this Bank the total amount of all ACH credit originations shown on a Notice of Origination before sending the items to this Bank for processing.

NOTIFICATION OF ORIGINATION

The sending institution shall deliver to this Bank a Notice of Origination before sending the files to this Bank and no later than \_\_\_\_\_ before the end of the window for the cycle in which the sending institution intends to originate the items. A Notice of Origination for ACH items to be originated in the night cycle shall be delivered by \_\_\_\_\_.

If a sending institution submits a Notice of Origination and subsequently discovers the notice is in error, the sending institution shall submit a revised notice to this Bank as soon as possible.

The Notice of Origination shall cover all credit items originated through another Reserve Bank (remote origination), all credit items sorted directly to the receiving institution's Reserve Bank (presort origination), and all credit items originated using a private service bureau, ACH service provider, or correspondent.

This Bank from time to time may verify the accuracy of the Notice of Origination by comparing the notice with the credit and debit items actually originated. We may point out discrepancies and require explanations. If the sending institution submits inaccurate Notices of



APPENDIX 3 (continued)

Origination, we may elect to refuse to process ACH credit originations of the sending institution, or we may elect to refuse to provide ACH or net settlement services to the institution.

PREFUNDING OF ACH CREDITS

From time to time, this Bank may, in its discretion, by notice to the sending institution, require that the sending institution irrevocably make available to this Bank, in actually and finally collected funds, the total amount of all ACH credit originations shown on the Notice of Origination before this Bank processes the items ("prefunding"). The sending institution may prefund its credit originations by Fedwire, by transfer from another depository institution, by obtaining an advance from this Bank, or by maintaining a sufficient balance of actually and finally collected funds in its (or its correspondent's) reserve or clearing account. Unless the sending institution indicates that it will prefund in another way and actually does so, the sending institution authorizes this Bank, before the Bank processes the items, to deduct from the sending institution's (or its correspondent's) reserve or clearing account the amount needed to prefund the ACH credits.

If the sending institution fails or refuses to prefund the full amount of its ACH credits in a cycle, this Bank may, in its discretion, refuse to process items that have not been prefunded or may process the items but reserve the right to cease settling for the items on the settlement date. If the sending institution only partially prefunds the amount of its ACH credits and does not indicate which items have been prefunded, this Bank may, in its sole discretion, determine which items shall be considered to have been prefunded or may refuse to settle for all the items.

If the sending institution prefunds the ACH credits, its obligation to settle with regard to the prefunded ACH credit items up to the amount of the prefunding shall be automatically satisfied and discharged and shall be replaced by an irrevocable obligation of this Bank to settle for the prefunded items on the settlement date.

MISCELLANEOUS

This Bank reserves the right to defer the availability of some or all of the credit arising from debit ACH items originated by the sending institution.

If the amount of prefunding exceeds the total amount of credits actually originated by the sending institution, this Bank shall return the excess to the sending institution.

To the extent of any inconsistency between this agreement and the rest of the Operating Circular, the provisions of this agreement shall govern.

The sending institution indicates its agreement to the terms of this agreement by executing a letter in the form of Appendix 3-A. If the sending institution elects to prefund by using the account of a correspondent on this Bank's books, the sending institution and the correspondent both must execute a letter in the form of Appendix 3-B.

The correspondent may terminate its authorization to this Bank to charge its account by notice in writing to the Manager, ACH Operations. The notice shall not be effective for any items originated or debits made before the Manager receives the notice and has a reasonable time to act on it, notwithstanding any Settlement Agreement permitting earlier termination.

This Bank reserves the right to amend this agreement from time to time by publishing an amendment to Appendix 3.



**APPENDIX 3-A**  
**SENDING INSTITUTION AGREEMENT**

(Date)

Federal Reserve Bank of Dallas  
P.O. Box 655906  
Dallas, Texas 75265-5906

Attention: Manager  
ACH Operations

We agree to the terms of Appendix 3 to the Reserve Bank's Operating Circular 11, *Automated Clearinghouse Operations*, as amended from time to time. We agree to prefund ACH credit originations, as required by you from time to time, and authorize you to deduct the amount of the required prefunding from our reserve or clearing account before we originate ACH credit items.

\_\_\_\_\_  
Name of Sending Institution

\_\_\_\_\_  
Nine-Digit Routing/Transit ABA Number

By: \_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Title

**APPENDIX 3-B**

**SENDING INSTITUTION AGREEMENT AND  
CORRESPONDENT AGREEMENT**

(Date)

Federal Reserve Bank of Dallas  
P.O. Box 655906  
Dallas, Texas 75265-5906

Attention: Manager  
ACH Operations

*Sending Institution Agreement*

We (the sending institution) agree to the terms of Appendix 3 to the Reserve Bank's Operating Circular 11, *Automated Clearinghouse Operations*, as amended from time to time. We agree to prefund our ACH credit originations, as required by you from time to time, and designate \_\_\_\_\_ as our correspondent for the purpose of providing you an account from which you may deduct the amount of the required prefunding.

\_\_\_\_\_  
Name of Sending Institution

\_\_\_\_\_  
Nine-Digit Routing/Transit ABA Number

By: \_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Title

*Correspondent Agreement*

We agree to act as correspondent for the sending institution named above. We authorize you to deduct from our reserve or clearing account on your books, from time to time, the amount of any required prefunding before the sending institution originates ACH credit items.

\_\_\_\_\_  
Name of Correspondent

\_\_\_\_\_  
Nine-Digit Routing/Transit ABA Number

By: \_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Title

**APPENDIX 4**

**AUTOMATED CLEARINGHOUSE ITEMS  
SETTLEMENT AGREEMENT**

Before sending ACH items to, or receiving ACH items from, this or another Reserve Bank, a sending or receiving institution must execute an agreement with a Reserve Bank to provide for settlement of ACH items by debit or credit to an account on the Reserve Bank's books. If the institution desires to use its own account on this Bank's books for settlement of items, it should execute an agreement substantially in the form set forth in the ACH Participation Agreement or in Appendix 4-A of this Operating Circular. If the institution desires to use a correspondent's account on this Bank's books for settlement of items, it should execute, and have the correspondent execute, an agreement substantially in the form set forth in the ACH Participation Agreement or in Appendix 4-A.

By executing this Settlement Agreement, the institution (or a correspondent account holder, if any) authorizes this Reserve Bank (1) to debit to the institution's account on the settlement date the amount of credit items sent by the institution to a Reserve Bank, the amount of debit items sent to the institution by a Reserve Bank, and the amount of government ACH debit items sent to the institution by a Reserve Bank; (2) to credit to its account on the settlement date the amount of debit items sent by the institution to a Reserve Bank, the amount of credit items sent to the institution by a Reserve Bank, and the amount of government ACH credit items sent to the institution by a Reserve Bank; and (3) to debit and credit to its account the amount of other transactions (including fees, unless otherwise agreed) with respect to ACH items and government ACH items, as provided in the Reserve Bank's Operating Circular 11 and Fiscal Agency Operating Circular 3. An account holder whose account is used by a sending or receiving institution for settlement of ACH items does not thereby become a sender or receiving bank, as defined in Article 4A, or a party to an item.

By executing this Settlement Agreement, and in consideration of the processing and settlement by Reserve Banks of ACH items sent to and/or received by the institution and other sending and receiving institutions, the institution (and the correspondent account holder, if any) also agrees to the applicable Reserve Bank operating circulars governing ACH items and to the applicable ACH rules, each as amended from time to time, for the benefit of all parties interested in the items.

This Settlement Agreement supersedes all prior inconsistent settlement agreements with respect to ACH items. The sending or receiving institution (or its correspondent account holder, if any) may terminate this Settlement Agreement by written notice to this Bank. The termination notice is effective only for ACH items to be settled by this Bank on and after the banking day following the banking day of receipt of the notice by this Bank or on and after a later date specified in the notice. This Bank may terminate a Settlement Agreement by written notice to the institution (or the correspondent account holder, if any). This termination notice is effective for ACH items to be settled by this Bank on and after the banking day following the banking day of receipt by the institution of the notice or on and after a later date specified in the notice.

**APPENDIX 4-A**  
**SETTLEMENT AGREEMENT**

(Date)

Federal Reserve Bank of Dallas  
P.O. Box 655906  
Dallas, Texas 75265-5906

Attention: Manager  
ACH Operations

The participating institution and any correspondent named below authorize the Federal Reserve Bank to debit and/or credit the designated account at the Reserve Bank for (a) all ACH items sent to and/or received from the automated clearinghouse; (b) all return items and adjustments related to ACH items; and (c) unless otherwise agreed, all fees or charges for services rendered by the Reserve Bank under the terms of this agreement.

The participating institution and any correspondent named below agree to the terms of the Settlement Agreement set forth in Appendix 4 to the Reserve Bank's Operating Circular 11 (*Automated Clearinghouse Operations*) and agree to that Operating Circular and Fiscal Agency Operating Circular 3 (*Federal Payments by the Automated Clearinghouse Method*), each as amended from time to time. The participating institution or correspondent agrees to maintain in its account at the Reserve Bank a balance of actually and finally collected funds sufficient to cover all obligations.

Settlement for ACH items is to be functioned to the account of

- Participating institution (self)
- Correspondent institution (settlement institution)

Name: \_\_\_\_\_

Address: \_\_\_\_\_

City/State/ZIP Code: \_\_\_\_\_

Nine-Digit Routing/Transit ABA Number: \_\_\_\_\_

**The information specified below must be completed by the settlement institution.**

Contact Name: \_\_\_\_\_ Phone Number: (    ) \_\_\_\_\_

Officer's Name: \_\_\_\_\_ Signature: \_\_\_\_\_

Title: \_\_\_\_\_ Date: \_\_\_\_\_