

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **10631**
April 5, 1993]

AUTOMATED CLEARING HOUSE ITEMS

Changes in Operating Circular No. 10

*To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:*

Enclosed are copies of the First Supplement, a revised Appendix 1, and a new Appendix 3, all effective April 1, 1993, to this Bank's Operating Circular No. 10, "Automated Clearing House Items". The changes reflected therein are intended to clarify the operating circular relating to security procedures and to the acknowledgments required by National Automated Clearing House Association (NACHA) rules, and to set forth the agreements that are required for depository institutions in the Second Federal Reserve District.

Acknowledgements

The NACHA rules have been amended to require automated clearing houses to acknowledge receipt and limited processing of files. Paragraph 14A has been added to the operating circular to make clear that by acknowledging the receipt of ACH files, a Reserve Bank does not indicate that the items in the file have been accepted by the Reserve Bank and will not be rejected.

Security Procedures

Appendix 1, "ACH Security Procedures," has been amended to clarify when a Reserve Bank verifies file control information. Control totals will be verified when input files are issued by tape, diskette, paper and by electronic means when neither access controls nor encryption are employed.

Agreements

Currently, institutions settling for ACH items through an account on this Bank's books execute an agreement in the form of either Exhibit I-A or I-B to the operating circular as indicated in paragraph 35 of the circular. The Reserve Banks have prepared a uniform ACH settlement agreement appendix that contains all the information and signatures necessary to cover settlement and delivery of ACH items through any Reserve Bank.

The Federal Reserve Bank of New York will implement the new agreement in two steps. The first step is the addition of Appendix 3 to the circular for use by institutions that receive only Government ACH items directly from this Bank. These items are governed by this Bank's Operating Circular No. 11. These institutions will be asked to execute a letter agreeing to the terms of this Appendix for settlement of these items.

The second step will occur when this Bank begins processing commercial ACH items in connection with the consolidation of Reserve Bank ACH operations. At that time, this Bank will conform its ACH circular to the uniform Reserve Bank ACH circular and include the uniform ACH

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settlement agreement appendix which will be executed by all institutions using the ACH service. Until then, depository institutions in this District that originate or receive ACH items through another Reserve Bank are required to do so under the settlement agreement issued by that Reserve Bank. This requirement is stated in the new paragraph 35A of the operating circular.

Questions regarding these matters may be directed to Andrew Heikaus, Manager, Funds Transfer Department (Tel. No. 212-720-5561).

E. GERALD CORRIGAN,
President.

**FEDERAL RESERVE BANK
OF NEW YORK**

Appendix 3 to
Operating Circular No. 10
Effective April 1, 1993

ACH SETTLEMENT AGREEMENT

Prior to 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 providing 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 Government ACH items, which are governed by our Operating Circular No. 11, it should execute an agreement substantially in the form set forth in the ACH Participation Agreement. 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.

By executing this settlement agreement, the institution (or a correspondent account holder, if any) authorizes this Reserve Bank: (1) to debit to its account on the settlement date 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 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 circulars entitled "ACH Items" and "Federal Payments by the ACH Method." 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 agree 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.

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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.

E. GERALD CORRIGAN,
President.

**FEDERAL RESERVE BANK
OF NEW YORK**

[**First Supplement to
Operating Circular No. 10**
Effective April 1, 1993]

AUTOMATED CLEARING HOUSE ITEMS

*To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:*

Effective April 1, 1993, this Bank's Operating Circular No. 10 is amended as follows:

1. Paragraph 4 is amended by adding the following at the end:
"Appendix 3 — ACH Settlement Agreement."
2. Paragraph 14A is added following paragraph 14, to read as follows:

14A. We send an acknowledgement to an ACH association that we have received ACH files by electronic transmission and have performed limited processing of the files, as provided in applicable ACH rules. An acknowledgement does not mean that we have accepted, and will not reject, the items contained in the files. The ACH association is responsible for verifying the information in the acknowledgement and notifying us immediately of any discrepancy, and for notifying us promptly of nonreceipt of an acknowledgement. (See Paragraph 45.)

3. Paragraph 35 is amended, and paragraph 35A is added, to read as follows:

35. Prior to sending an item to or receiving an item from this Bank through an ACH, 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 with this Bank in the form of Exhibit I-A or I-B to this Circular. An agreement for settlement of items executed by a sending or receiving institution (and an account holder, if any) and in effect on August 1, 1981, is considered to comply with this paragraph upon the sending or receipt by the institution of items on or after that date, unless the sending or receiving institution ceases to be a member of an ACH association. This settlement agreement applies to all items sent by the sending institution to this Bank through an ACH. An account holder whose account is used by a sending or receiving institution for settlement does not thereby become a sender or receiving bank as defined in Article 4A, or a party to an item.

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35A. Prior to sending an item to or receiving an item from a Reserve Bank other than the Federal Reserve Bank of New York, 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 with that other Reserve Bank.

4. Appendix 1 has been amended, and a new Appendix 3 has been added, effective April 1, 1993.

E. GERALD CORRIGAN,
President.

**FEDERAL RESERVE BANK
OF NEW YORK**

**Appendix 1 to
Operating Circular No. 10**
Effective April 1, 1993

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 and that are offered by this Bank to an automated clearing house ("ACH") for the same purpose. The security procedures are not used to detect an error 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 identification codes and confidential passwords that allow a customer to access a Reserve Bank's system, and also encryption of ACH items during the transmission process. The procedure is more specifically described in the Computer Interface Protocol Specifications ("CIPS") and the Fedline Users 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 via magnetic tape, diskette, or 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 — *i.e.*, file ID, debit and credit dollar amounts, and entry/addenda count — to a Reserve Bank and then the Reserve Bank compares that information against the file(s) it actually receives. The control information may be provided by:

- (a) voice response if the voice response system contains an access security feature; or
- (b) a telephone call using codewords; or
- (c) a transmittal register or a telephone call. When the control information is provided by this means, it will be verified by a call back from the Reserve Bank.

E. GERALD CORRIGAN,
President.