

***ACH Settlement Day
Finality Guide***

Summary

With the implementation of ACH Settlement Day Finality, ACH forward credit items processed by the Federal Reserve will be final when posted, which is currently 8:30 a.m. ET on the settlement day. Under the current policy, the Federal Reserve's Uniform ACH Operating Circular (OC4) gives the Federal Reserve the right to reverse settlement for credit transactions until 8:30 a.m. ET on the business day *following* the settlement day.

- Although credits will post to the account of the Receiving Depository Financial Institution (RDFI) on the settlement date at 8:30 a.m. ET, the offsetting debit may post at a different time if the account in which the Originating Depository Financial Institution (ODFI) settles its ACH transactions is monitored in real-time.

ACH forward credit items that settle in an account that is **monitored in real-time** by the Federal Reserve will be debited to the account at the time the ACH credit items are processed by the Federal Reserve. This practice known as prefunding, requires sufficient funds to be available in the monitored account to cover the total amount of forward ACH credit items originated (not debits or returns). The Federal Reserve's Account Balance Monitoring System (ABMS) will determine if a sufficient balance is available in the monitored account to cover each batch containing forward credit items at the time each batch is processed. If the balance is sufficient, ABMS will post a debit to the monitored account for the total of each batch that contains forward credit items and processing will continue. If the total amount of a batch that contains forward items credits *cannot* be funded at the time of processing, the entire batch will reject. Both credit and debit items that are submitted in mixed batches will reject if the total amount of credits cannot be funded. Prefunded amounts will be held in a Federal Reserve account until the settlement date when the amount is credited to the RDFI. It is important to note that most settlement accounts are **NOT** monitored in real-time and ACH transactions that settle in these accounts will process as they do today.

ACH Participants Affected by Settlement Day Finality

- **Originating Depository Financial Institutions (ODFI)** that send forward ACH credit items that are processed by the Federal Reserve and settle in an account that is monitored in real-time. These credit items may be sent directly to the Federal Reserve or through another ACH Operator. The ODFI's settlement account must have sufficient funds available to cover the total amount of forward credit items at the time ACH transactions are processed.
- **Sending Points (SP)** that send ACH credit items that are processed by the Federal Reserve and settle in an account that is monitored in real-time. The SP may be sending its own items or items for other ODFIs (and the ODFIs respondents). The ODFI's settlement account must have funds available to cover the total amount of forward credit transactions in each batch at the time of processing by the Federal Reserve or each batch will reject.

- **Settlement Depository Financial Institutions (SDFI)** whose Federal Reserve accounts are monitored in real-time must fund the amount of forward ACH credit items at the time of processing by the Federal Reserve. The SDFI may be settling its own ACH items or those of its respondents.
- The ODFI, SP and SDFI may be the same entity or different entities.

ACH Participants Checklist

The ACH participants noted above should carefully review the following checklist to determine the impact ACH Settlement Day Finality may have upon their ACH operations and funding patterns. The processing scenarios and examples in the following sections of this document provide detailed information on each of the checklist items.

Originating Depository Financial Institutions (ODFI) that settle ACH transactions in accounts that are monitored in real-time.

- Assess settlement arrangements to ensure the timely processing of forward ACH credit originations. Forward ACH credit items will be subject to prefunding when processed by the Federal Reserve. This means that the debit to the ODFI's settlement account will be posted when the credit items contained in each batch are processed.
- Coordinate the timing of ACH transaction flows with the SP and SDFI to ensure sufficient funds are available at the time of processing. This may require a new level of communication between the ODFI, the SDFI, and the SP.
- Evaluate the process for handling file acknowledgements that contain pended batches. Each batch containing forward item credits will pend for a balance check. During the period between approximately 6:31 p.m. ET and 12:30 a.m. ET pended batches will be held for a balance check and acknowledgements indicating that the batch was accepted or rejected will be returned after 12:30 a.m. ET.
- Ensure that procedures are in place to identify rejected batch acknowledgements. Procedures should be in place to ensure any rejected batches are resubmitted when sufficient funds are available in the SDFI's account with the Federal Reserve. Batches must be resubmitted timely to ensure credit to the ultimate receiver is not delayed.

Sending Points (SP) that send ACH transactions that settle in an account that is monitored in real-time.

- Coordinate with ODFIs the timing of ACH transaction flows that settle in an account that is monitored in real-time. Forward ACH credit items that settle in an account that is monitored in real-time will reject at the batch level if there are not sufficient funds in the

settlement account at the time of processing. Each rejected batch must be resubmitted when funds are available.

- Assess the impact of batch level rejects. SPs that have elected the file level reject option will receive a file reject if the file fails NACHA or Federal Reserve edits. After the file has passed the initial edits, batch level rejects will occur if the balance in the account is not sufficient to cover the total amount of forward credit items (not returns) contained in a batch at the time of processing.
- Evaluate the process for handling file acknowledgements that contain pended batches. Each batch containing forward item credits will pend for a balance check. During the period between approximately 6:31 p.m. ET and 12:30 a.m. ET pended batches will be held for a balance check and acknowledgements indicating that the batch was accepted or rejected will be returned after 12:30 a.m. ET.
- Ensure procedures are in place to identify acknowledgements containing rejected batches. Procedures should be in place to ensure rejected batches are resubmitted when adequate funds are available in the SDFI's account with the Federal Reserve. Batches must be resubmitted timely to ensure credit to the ultimate receiver is not delayed.
- Assess the importance of implementing the Computer Interface Protocol Specifications (CIPS) changes that were issued in September 2000 regarding ABMS and FedACH applications if your institution maintains a computer interface connection with the Federal Reserve.

Settlement Depository Financial Institutions (SDFI) whose accounts are monitored in real-time.

- Ensure that sufficient funds are in your account to cover ACH credit items at the time they are processed by the Federal Reserve. Forward ACH credit items (not returns) will be subject to prefunding and a debit for the total of each batch that contains credits will post to your account when the batch is processed by FedACH. Prefunding applies to all ACH credit items that settle in the account including your own items and any items you settle for respondents.
- Closely examine daily funding patterns to determine if changes are necessary to ensure ACH credits are processed timely and beneficiaries are credited on the intended date. Although forward credit items will be debited at the time of processing, credit to the Receiving Depository Financial Institution (RDFI) will remain on the settlement date.
- Ensure that procedures are in place to act upon acknowledgements received for any batches that reject for insufficient funds in your account. Timely action to fund the account and notify the appropriate party (ODFI and/or SP) that adequate funds are available is required so that rejected batches can be resubmitted and processed in time for the beneficiary to receive credit when due.

- Verify the location in your institution that will receive acknowledgments for any batches that reject for insufficient funds. If your institution maintains an electronic connection with the Federal Reserve, this acknowledgement will be delivered to the terminal that receives Funds transfer reject messages. If your institution does not maintain an electronic connection with the Federal Reserve, FedACH CBAF staff will call a designated contact at your institution to provide the reject notice.
- Ensure that procedures are in place to act upon the new Second Immediate Advice. This advice will be delivered with the End-of-Day Advice and will show the debit amount for batches posted to ABMS between approximately 2:01 p.m. ET and 6:30 p.m. ET.
- Assess the importance of implementing the Computer Interface Protocol Specifications (CIPS) changes that were issued in September 2000 regarding ABMS and FedACH applications if your institution maintains computer interface connection with the Federal Reserve.
- Evaluate the need to advise ODFIs to separately sort forward credit items to eliminate the chance of an entire mixed batch (both debits and credits) rejecting.

Overview of Federal Reserve Application Changes for Settlement Day Finality

The Federal Reserve's Account Balance Monitoring System (ABMS) will be used by FedACH (Federal Reserve System's central Automated Clearing House system) to prefund forward ACH credit batches. FedACH will transmit the total amount of credits contained in each batch to ABMS after the file has been edited except between the hours of approximately 6:31 p.m. ET and 12:30 a.m. ET. The timing of the processing flow for batches that contain forward credit items that settle through accounts monitored in real-time by the Reserve Bank will depend upon when ACH files are received.

1. FedACH

FedACH is the name of the Federal Reserve System's central Automated Clearing House software.

- In September 2000¹, the Federal Reserve distributed an announcement to Computer Interface (CI) users that provided Computer Interface Protocol Specifications (CIPS) for a change to accommodate a new ACH advice entitled "Second Immediate Advice." This advice will be created if batches that required prefunding are processed by FedACH and ABMS between approximately 2:00 p.m. ET and 6:30 p.m. ET. The FedACH CIPS change, when implemented, will allow users to request a remake of the ACH Second Immediate Advice.

¹ Contact the ACH Business Manager at your district for copy of CIPS document.

2. IAS

The Federal Reserve's Integrated Accounting System (IAS) creates the daily **Statement of Account** provided to account holders by the Federal Reserve. ACH files that contain batches that are prefunded will reflect the telephone number (1-888-333-7010) next to the amount on the statement. Questions regarding these debits will be directed to the telephone number of the Federal Reserve Bank of Minneapolis Customer Service & Support Center.

3. ABMS

The Account Balance Monitoring System (ABMS) maintains a record of activity posted to a Federal Reserve account. The ABMS will be used by FedACH to prefund any ACH credit origination batches that settle in an account that is monitored in real-time by the Reserve Bank.

- A CIPS announcement letter distributed in September 2000 included a change that, when implemented, will provide a new line labeled "PRFNDACH" with the Account Balance Inquiry Response. The new line will reflect the total amount that was debited for prefunded ACH items.
 - Customers who maintain a FedLine Connection with the Reserve Bank will see this new line on the Account Balance Inquiry Response as of April 2, when ABMS application changes are implemented to support the Finality process.
- Under normal circumstances, the following posting times will be associated with ACH credit items that settle in an account that is monitored in real-time by the Reserve Bank:
 - The total amount of each batch that contains forward credit items that are received by FedACH between approximately 3:01 a.m. ET 6:30 p.m. ET, will be deducted from the account balance by ABMS when the batch is processed if the balance is sufficient.
 - Batches that contain forward credit items that are received by FedACH between approximately 6:31 p.m. ET and 12:30 a.m. ET, will be held by FedACH and transmitted to ABMS at approximately 12:31 a.m. ET when ABMS opens for the next accounting business day. The total amount of each batch will be deducted from the account balance by ABMS after 12:31 a.m. ET when the batch is processed if the balance is sufficient.
 - The total amount of each batch that contains forward credit items that are received by FedACH between approximately 12:31 a.m. ET and 3:00 a.m. ET, will be deducted from the account balance by ABMS for the next accounting business day when the batch is processed if the balance is sufficient.
- Credit for ACH items will be posted to the RDFI's account at 8:30 a.m. ET on the settlement date.
- For information on managing your Federal Reserve account, please consult the Federal Reserve's *Account Management Guide*, available online at www.frbservices.org. Simply select the **Accounting** tab from the Service Information menu, and then click on the **Customer Reference Guides** link from the list of options at the bottom of the Accounting page.

ACH Settlement Day Finality Examples

The following charts recap the process and delivery flows for files submitted to FedACH on June 25 during three time periods. The files contain forward credit batches that require prefunding.

Processing Examples by Time of Day

3:01 a.m. ET to 6:30 p.m ET

- File processes upon receipt by FedACH.
- File acks sent indicating batch pends.
- File acks sent indicating batch accepted or rejected.

Accounting Day Jun 25
Dr SDFI at time processed
Cr RDFI Jun 26 1 day credit
Cr RDFI Jun 27 2 day credits

6:31 p.m. ET to 12:30 a.m. ET

- File processes upon receipt by FedACH.
- File acks sent indicating batch pends.
- Batches pend until @ 12:30 AM ET June 26
- File acks sent indicating batch accepted or rejected.

Accounting Day Jun 26
Dr SDFI Jun 26
Cr RDFI Jun 26 1 day credit
Cr RDFI Jun 27 2 day credits

12:31 a.m. ET to 3:00 a.m. ET

- File processes upon receipt by FedACH.
- File acks sent indicating batch pends.
- File acks sent indicating batch accepted or rejected.

Accounting Day Jun 26
Dr SDFI Jun 26
Cr RDFI Jun 26 1 day credit
Cr RDFI Jun 27 2 day credits

Advice Delivery

3:01 a.m. ET to 2:00 p.m. ET

Items processed during this time period are reflected on the Immediate Advice.

2:01 p.m. ET to 6:30 p.m. ET

Prefunded items processed during this time period are reflected on the Second Immediate Advice.

6:31 p.m. ET to 3:00 a.m. ET

Items processed during this time period are reflected on the End-Of-Day Advice.

The following narrative describes the matrix provided above.

The narrative assumes an ACH file only contains credit batches settling through an account that is monitored in real-time by the Federal Reserve. The example outlines the process for a file received from approximately 3:01 a.m. ET and 6:30 p.m. ET and notes differences caused by other processing time periods.

1. An ACH file that settles in an account that is monitored in real-time by the Federal Reserve, is sent to FedACH on June 25th and received between approximately 3:01 a.m. ET and 6:30 p.m. ET. A batch containing forward credit items is included in the file.

2. Initial NACHA and FedACH edits are performed and no errors are found. A file acknowledgement is sent to the sending point with a File Status of “File accepted with batch level error” and a Batch Status of “Batch pending for further processing”. The acknowledgment will contain information on the file along with information on each pending batch.
3. FedACH transmits the total of each batch that contains forward credit items (or total amount of forward credit items contained in a mixed batch) to ABMS for verification that funds are available in the settlement account of the monitored institution at that time.
 - **Note:** FedACH holds (pends) batches that contain forward credit items received between approximately 6:31 p.m. ET and 12:30 a.m. ET and then transmits the batch total (or total amount of credit transactions contained in a mixed batch) to ABMS at 12:30 a.m. ET. During this time period, the acknowledgment process is the same as described above.
 - If funds **are** available, ABMS will deduct the batch total from the settlement account. The sending point will receive a file acknowledgement from FedACH indicating “File accepted with batch level error” and a Batch Status of “Pending batch accepted.” FedACH will continue normal processing of the batch.
 - If funds **are not** available, the settlement depository financial institution (SDFI) will be notified that the batch has rejected. If the SDFI has an electronic connection, FedACH will send a file acknowledgement to the terminal that receives Funds transfer reject messages. If the SDFI does not have an electronic connection, FedACH CBAF staff will call a designated contact at the SDFI.
 - The sending point will receive a file acknowledgement with a File Status of “File accepted with batch level error” and a Batch Status of “Batch rejected-insufficient funds.” A separate file acknowledgement² will be sent for each batch that is rejected.
 - The sending point will need to notify the ODFI (if different than themselves) that the batch has rejected and make arrangements to resubmit the batch when the ODFI/SDFI advises that funding is available. If the batch reject is not handled timely, credit to the ultimate receiver could be delayed.
4. If the batch was funded, the settlement account will be debited at the time the batch is processed **on the accounting day of June 25th**. The offsetting credit will be held in a Federal Reserve account and posted to the account of the RDFI on June 26th at 8:30 a.m. ET for one-day availability items or 8:30 a.m. ET on June 27th for two-day availability items. These credits will be final and irrevocable when posted.
 - **Note:** For files received and funded between the time period of approximately 6:31 p.m. ET on June 25th and 3:00 a.m. ET on June 26th; the monitored settlement account will be debited at the time the batch was processed **for the accounting day of June 26th**. The

² If you receive file acknowledgements over BulkData there will be one file acknowledgement for all the batches in the file.

offsetting credit will be held in a Federal Reserve account and posted to the account of the RDFI on June 26th at 8:30 a.m. ET for one-day availability items or 8:30 a.m. ET on June 27th for two day availability items. These credits will be final and irrevocable when posted.

5. ACH Advices:

- If the batch is accepted and ABMS posts a debit between approximately 3:01 a.m. ET and 2:00 p.m. ET, the FedACH Immediate Advice will reflect the debit amount of the batch that required prefunding.
- If the batch is accepted and ABMS posts a debit between approximately 2:01 p.m. ET and 6:30 p.m. ET, the new FedACH Second Immediate Advice will reflect the debit amount of the batch that required prefunding. This advice will be delivered with the End-of-Day Advice
- If the batch is accepted and ABMS posts a debit between approximately 12:30 a.m. ET and 3:00 a.m. ET, the FedACH End-of-Day Advice will reflect the debit amount of the batch that required prefunding.