

ACH Compliance & IAT Implementation



Credit Union National Association

Presented by
Courtney Cantwell,
Center for Professional Development

WilliamsTown Communications,
Instructional Design Consultant



Introduction

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In this course, you'll be introduced to the basic elements and processes associated with the ACH network, which is one of the cornerstones of the current U.S. financial system. In addition, you'll learn about an upcoming change—implementation of the so-called IAT code—that that will not only have a significant effect on the entire ACH network, but also on the way your credit union does business.

Objectives

Every day, your credit union deals with hundreds, if not thousands, of ACH transactions. Do you know what these transactions are, or how they are sent, processed, and received? Are you aware of the new regulations that will impact the way your credit union deals with these transactions? By the end of this Training on Demand course, you will be able to:

- Define ACH;
- Explain the relationship between NACHA and ACH;
- Recognize changes to the ACH process in terms of the new IAT rule;
- Recognize the steps your credit union must take to comply with the IAT rule; and
- Describe the penalties for noncompliance.



What Is ACH?

Quite simply, ACH is an acronym for Automated Clearinghouse. The Automated Clearinghouse is an electronic network within the United States by which credit unions, banks, and other financial institutions can both receive and transmit credit and debit transactions. This system was first introduced in California in 1972, through the joint effort of participating banks and the regional Federal Reserve office, and it was meant to cut down on the widespread use of paper checks for routine payments. As other financial institutions saw the success of the California system—and realized how much time they could save by reducing the need for check processing—ACH began to spread. All across the country, banks and credit unions joined with their regional Federal Reserve Banks to establish electronic funds transfer systems. By 1978, the result was a unified, nationwide ACH network.

In the years following its introduction, ACH quickly gained a reputation for efficiency and reliability. This, in turn, meant that use of the system grew by leaps and bounds. For example, in 1988—only a decade after ACH went nationwide—the network reached a major milestone, processing over 1 billion transactions in that year alone. By 2000, this number had risen to over 4.8 billion payments, which collectively accounted for more than \$12 trillion. Amazingly, within a seven-year period, these figures roughly tripled. Thus, by 2007, the ACH network processed an estimated 18 billion payments, with a total value in excess of \$36 trillion! Although more recent statistics aren't yet available, one thing is for certain—use of ACH continues to grow at an exponential pace, and it shows no signs of slowing anytime soon.

ACH Oversight

Given the aforementioned statistics, it's obvious that ACH affects not only a vast amount of money, but also thousands of financial institutions and millions of businesses and individuals. Strict oversight of the network is therefore necessary in order to protect the health and wealth of the American economy.

Within the United States, the task of overseeing the ACH system is primarily the responsibility of two organizations: the Federal Reserve and the National Automated Clearing House Association.

Federal Reserve: The Federal Reserve, also known as the Fed, is the central banking system in the United States. This means that the Fed has a number of duties, including (but not limited to) setting interest rates, serving as the checking account for the U.S. Treasury, distributing currency, and regulating financial institutions and practices in order to best protect consumers. Given this range of duties, it seems obvious that the Fed would play a prominent role in the ACH system. In this capacity, the Fed both establishes and enforces regulations governing ACH transactions and serves as one of only two ACH operators in the United States. (More information about ACH operators is provided later in this workbook.)

