Welcome to ASC X9's Presentation Titled:

**External Processing Code (EPC) for
Remotely Created Checks (RCCs)**

Scheduled for September 3, 2015 at 2:00 PM EDT
and October 1, 2015 at 2:00 PM EDT

Toll-free dial-in number (U.S. and Canada): 866-290-9319
International dial-in number: 816-650-9042
Conference code: 2632699 (Same numbers for both dates)

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Agenda

- New External Processing Code
  - X9 Standard *X9.100-160-2014 Part 2*
- Why is it necessary
- What it is
- What it isn't
- It's intended use
- A thank you to our sponsors

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What is an External Processing Code (EPC)?

- As defined in X9 Standard *X9.100-160-2014 Part 1*
  - The EPC is a MICR digit that conveys special information regarding the correct handling or routing of a check or check data to financial institutions and other processors
  - The EPC field is MICR field 6, position 44 on the MICR line
    - Is located to the immediate left of the Routing number

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What is a Remotely Created Check (RCC)

- Reg CC definition:
  - A check that is not created by the paying bank and that does not bear a signature applied, or purported to be applied, by the person on whose account the check is drawn. For purposes of this definition, "account" means an account as defined in paragraph (a) of this section as well as a credit or other arrangement that allows a person to draw checks that are payable by, through, or at a bank.

- Proposed Reg CC definition:
  - The Board proposed to define a "remotely created check" as a check that is drawn on a customer account at a bank, is created by the payee, and does not bear a signature in the format agreed to by the paying bank and the customer.

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Remotely Created Checks Defined

- They are similar to their check counterparts
  - They embody a paper instrument that contains an unconditional written order, instructing a drawee bank (paying bank) to make payment to the order of a designated payee and are processed through the banking system.

- They serve a useful business purpose in a diverse market
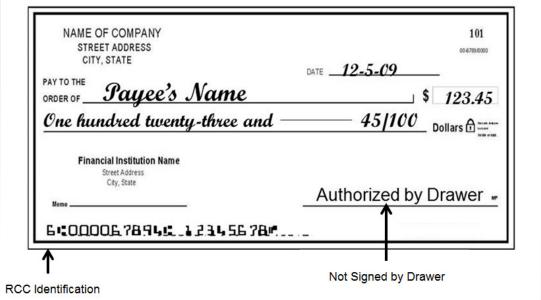 - Telephone Marketing, Bill Payments, Loan Repayments, Recurring Insurance Payments, and Internet payments
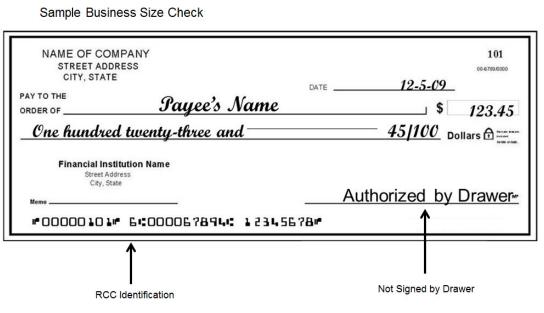
New EPC code

- A new EPC code was added to the latest revision of the X9 Standard *Magnetic Ink Printing (MICR) X9.100-160-2014 Part 2*

- EPC code **'6'**, for usage as an identifier of **Remotely Created Checks (RCCs)**.

Sample Business Size Check

Sample Consumer/Retail Size Check

RCC Identification

Not Signed by Drawer

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Why a new EPC code?

- RCCs have been criticized
  - Remotely created checks are vulnerable to fraud because they do not bear the drawer's signature or other readily verifiable indication of authorization.
  - There has been significant consumer and bank complaints identifying cases of alleged fraud
  - Unauthorized RCCs create Risk and Cost to financial institutions

- Changes have been made to Regulation CC and UCC to add a definition and warranty in an effort to address some of the fraud.

- An article in the American Banker stated that "remotely created checks have little or no systematic fraud monitoring, unlike credit card purchases and automated clearing house transactions…"

Why a new EPC code?

- Potential regulatory need
    - Federal Trade Commission wants to outlaw RCCs, saying there is no way to monitor them
    - Other regulator agencies may follow suit

What the new code is:

- The new code, when used appropriately, will create a mechanism for monitoring
    - Draft is authorized
    - Payee generates the Remotely Created Check
    - MICR line is exactly the same, with the addition of a '6' in the EPC (position 44)
    - Check is processed to the paying bank and paid, or not…

- Since the Amount, RT, and Account numbers are still the same, processing of the payment is uninterrupted

What the new code is:

- A discreet code creates the opportunity to collect data
    - Presentment volumes, return rates, specific account activity can be collected and analyzed to identify potential fraud
    - Systems do need to be created to track and analyze RCC activity and behavior
    - Enhances the ability to track return item trends, as required by bank regulators

- Enforcement of RCC use can be controlled through the account holder agreement
    - Stating it's use as requirement

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What the new code is Not:

- It is <u>NOT</u> an immediate solution to fraud
  - Bad guys will still be out there and may or may not follow the rules or the provisions in their account holder agreement
  - Adoption will not be immediate because systems have to change for issuers to add the '6' and for payors to track the data
- It does create a mechanism and opportunity to better understand RCC use and behavior (presentment volumes and return rates) but requires change to happen before that information can become useful
- There are limitations
  - EPC digit in the electronic record will be over-laid with a '4' if an IRD is printed

How can you implement the new code?

- There are several Financial institutions with active projects to implement the new EPC code

- If you have customers that issue RCCs:

  - Work with your legal staff to update your account holder agreement to require the '6'

  - Update/modify your reporting/information systems to monitor volumes and return rates

- If you want to collect data on how many RCCs are being paid and/or returned for audit reporting and fraud monitoring (or any other reason):

  - Update/modify your reporting/information systems to collect data on items containing the '6'

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Questions?

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