Welcome to ASC X9’s Presentation Titled:

**X9 Training: External Processing Code (EPC) and Return Reasons for Image Exchange**

Scheduled for February 8, 2017 at 11:00 AM EDT and February 23, 2017 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)
Agenda

• 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

• Returns and Return Reasons
  • Customer and Administrative Returns
  • New Return Reason Codes
  • X9.100-188

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External Processing Code
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
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.

• **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.
Remoteely 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
  - 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)
Samples with EPC ‘6’

**Consumer/Retail**

- **NAME OF COMPANY**
- **STREET ADDRESS**
- **CITY, STATE**

**PAY TO THE ORDER OF**

- **Payee’s Name**
- **One hundred twenty-three and 45/100 Dollars**

**Financial Institution Name**
- **Street Address**
- **City, State**

**DATE** 12-5-09

**Authorized by Drawer**

**RCC Identification**

Not Signed by Drawer

**Business**

- **NAME OF COMPANY**
- **STREET ADDRESS**
- **CITY, STATE**

**PAY TO THE ORDER OF**

- **Payee’s Name**
- **$123.45**

**One hundred twenty-three and 45/100 Dollars**

**Financial Institution Name**
- **Street Address**
- **City, State**

**DATE** 12-5-09

**Authorized by Drawer**

**RCC Identification**

Not Signed by Drawer

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Sample IRDs with EPC ‘6’

Consumer IRD

Business IRD

Celebrating 30 years of accredited standards development!
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 has outlawed RCCs for telemarketing, 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
What the new code is Not:

• It is NOT 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?

• New code was effective November 24, 2015
  • X9 did training prior to its implementation
• There are several Financial institutions and processors that have implemented the new EPC Codes
  • Others have active projects
• 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 ‘6’
Return Reason Codes
Returns: Customer and Admin

• Customer returns
  • Returning a dishonored item based on check law
  • Routinely charged back to the depositor’s account
  • Examples:
    • NSF
    • Stop pay
    • Closed account

• Administrative returns
  • Requesting credit for an item rather than dishonoring the item
  • Not routinely charged back to the depositor’s account
  • Examples:
    • Poor quality image
    • Ineligible items
### Current Return Reasons

<table>
<thead>
<tr>
<th>Customer Return Codes</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>NSF – Not Sufficient Funds</td>
</tr>
<tr>
<td>B</td>
<td>UCF – Uncollected Funds Hold</td>
</tr>
<tr>
<td>C</td>
<td>Stop Payment</td>
</tr>
<tr>
<td>D</td>
<td>Closed Account</td>
</tr>
<tr>
<td>E</td>
<td>UTLA – Unable to Locate Account</td>
</tr>
<tr>
<td>F</td>
<td>Frozen/Blocked Account</td>
</tr>
<tr>
<td>G</td>
<td>Stale Dated</td>
</tr>
<tr>
<td>H</td>
<td>Post Dated</td>
</tr>
<tr>
<td>I</td>
<td>Endorsement Missing</td>
</tr>
<tr>
<td>J</td>
<td>Endorsement Irregular</td>
</tr>
<tr>
<td>K</td>
<td>Signature (s) Missing</td>
</tr>
<tr>
<td>L</td>
<td>Signature(s) Irregular; Suspected Forgery</td>
</tr>
</tbody>
</table>
## Current Return Reasons

<table>
<thead>
<tr>
<th>Customer Return Codes</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>M</td>
<td>Non-Cashed Item (non-negotiable)</td>
</tr>
<tr>
<td>N</td>
<td>Altered/Fictitious Item/ Suspected Counterfeit/ Counterfeit</td>
</tr>
<tr>
<td>O</td>
<td>Unable to Process</td>
</tr>
<tr>
<td>P</td>
<td>Item Exceeds Stated Max Value</td>
</tr>
<tr>
<td>Q</td>
<td>Not Authorized (includes drafts)</td>
</tr>
<tr>
<td>R</td>
<td>Branch/Account Sold (wrong bank)</td>
</tr>
<tr>
<td>S</td>
<td>Refer to Maker</td>
</tr>
<tr>
<td>W</td>
<td>Cannot Determine Amount</td>
</tr>
<tr>
<td>X</td>
<td>Refer to Image</td>
</tr>
<tr>
<td>Z</td>
<td>Forgery – An affidavit shall be available upon request</td>
</tr>
<tr>
<td>3</td>
<td>Warranty Breach (includes rule 8 &amp; 9 claims)</td>
</tr>
</tbody>
</table>
## Current Return Reasons

<table>
<thead>
<tr>
<th>Administrative Return Codes</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Image Missing</td>
</tr>
<tr>
<td>Q</td>
<td>Ineligible</td>
</tr>
<tr>
<td>U</td>
<td>Unusable Image</td>
</tr>
<tr>
<td>V</td>
<td>Image Fails Security Check</td>
</tr>
<tr>
<td>Y</td>
<td>Duplicate Presentment</td>
</tr>
<tr>
<td>1</td>
<td>Does not conform with X9.100-181 (X9 TIFF Standard)</td>
</tr>
<tr>
<td>2</td>
<td>Does not conform to the Industry’s UCD</td>
</tr>
<tr>
<td>3</td>
<td>Warranty Breach (includes rule 8 &amp; 9 claims)</td>
</tr>
</tbody>
</table>
New Returns Reason Codes

• Why change?
  • As things speed up the opportunity to return exceptions increases
    • Duplicate is a good example
  • Without a valid return reason banks are returning many of these items as ‘Refer to Maker’
    • This creates additional work on the BOFD side because they have to call the paying bank to understand why the item was returned
    • Discreet codes will reduce ‘Refer to Maker’ volume

• Popular Question
  • Isn’t ‘Duplicate’ an administrative reason?
    • With RDC and Consumer capture, more often than not duplicates ARE customer returns
## New Return Reasons

<table>
<thead>
<tr>
<th>Customer Return Codes</th>
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</thead>
<tbody>
<tr>
<td>T</td>
<td>Item Cannot Be Re-presented</td>
</tr>
<tr>
<td>U</td>
<td>Unusable Image</td>
</tr>
<tr>
<td>Y</td>
<td>Duplicate Presentment</td>
</tr>
<tr>
<td>4</td>
<td>RCC Warranty Breach (rule 8)</td>
</tr>
<tr>
<td>5</td>
<td>Forged and Counterfeit Warranty Breach (rule 9)</td>
</tr>
<tr>
<td>6</td>
<td>Retired/Ineligible Routing Number</td>
</tr>
</tbody>
</table>

<table>
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<tr>
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<tbody>
<tr>
<td>T</td>
<td>Item Cannot Be Re-presented</td>
</tr>
<tr>
<td>4</td>
<td>RCC Warranty Breach (rule 8)</td>
</tr>
<tr>
<td>5</td>
<td>Forged and Counterfeit Warranty Breach (rule 9)</td>
</tr>
<tr>
<td>6</td>
<td>Retired/Ineligible Routing Number</td>
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</tbody>
</table>
New Returns Reason Codes

• ‘T’ - Item Cannot be Re-presented
  • New Customer and Admin Reason code
  • Electronic alternative to punching out the MICR line on the paper check
  • Facilitates enforcement of 2 presentments (Fed) and 3 presentments (ECCHO) limitation
    • Replaces previous use of ‘T’ – ‘Stop Payment Suspect’ found in DSTU-X9.37
New Returns Reason Codes

• ‘U’ – Unusable Image
  • New Customer Return Reason code
  • Image could not be used for required business purpose (e.g. gross image defects, illegible, etc.)
    • Commentary: Use of this return reason should be tempered by a qualitative review of the actual usability of the item rather than a strict analytical analysis.
New Returns Reason Codes

- ‘Y’ – Duplicate Presentment
  - New Customer Return Reason code
  - Paying Bank will determine whether item is returned or adjusted
  - Pros
    - Provides more specific reason for return than ‘Refer to Maker’
    - Provides alternative to adjustment channel if completed within return timeframe
  - Cons
    - Does not provide information of the other duplicate item presented
    - Returns cannot be initiated by intermediary bank in the collection process
New Return Reasons Standard

• New codes were effective 12/20/2014
  • X9 did training prior to its implementation
• X9.100-188-2016 – Approved May 2016
  • X9 developed new standard to incorporate return reason codes for image exchange and Image Replacement Documents (IRDs)
    • Previously defined in X9.100-187 for Image Exchange and X9.100-140 for IRDs
    • No changes from previous standards
    • Includes Informative Annex on Proper Use of Return Reason Codes
• Separation of Return codes makes updating easier
  • Facilitates implementation when changes to codes
• Standard is free
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Questions?