



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)

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# 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
- A thank you to our sponsors

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# External Processing Code

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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.
- 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
  - Bill Payments, Loan Repayments, Recurring Insurance Payments, and Internet payments

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## 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)

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# Samples with EPC '6'

## Consumer/Retail

NAME OF COMPANY  
STREET ADDRESS  
CITY, STATE

101  
0047890000

DATE 12-5-09

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

Memo \_\_\_\_\_

Authorized by Drawer

⑆000006789⑆ ⑆2345678⑆

RCC Identification

Not Signed by Drawer

## Business

NAME OF COMPANY  
STREET ADDRESS  
CITY, STATE

101  
0047890000

DATE 12-5-09

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

Memo \_\_\_\_\_

Authorized by Drawer

⑆000006789⑆ ⑆2345678⑆

RCC Identification

Not Signed by Drawer

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# Sample IRDs with EPC '6'

## Consumer IRD

\*011500120\*  
01/04/2002  
8587408779  
This is a LEGAL COPY of your check.  
You can use it the same way you would use the original check.

2002/E010 DE9T000E50J  
94465009T

NAME OF COMPANY STREET ADDRESS CITY, STATE	101 00478000
PAY TO THE ORDER OF <u>Payee's Name</u>	DATE <u>12-5-15</u>
<u>One hundred twenty-three and</u>	\$ <u>123.45</u>
<u>45/100</u> Dollars	
Financial Institution Name Street Address City, State	Authorized by Drawer
⑆0000067894⑆ ⑆2345678⑆ ⑆0000012345⑆	

⑆0000067894⑆ ⑆2345678⑆ ⑆0000012345⑆

↑ IRD Identification

↑ RCC Identification

## Business IRD

\*011500120\*  
01/04/2002  
8587408779  
This is a LEGAL COPY of your check.  
You can use it the same way you would use the original check.

2002/E010 DE9T000E50J  
94465009T

NAME OF COMPANY STREET ADDRESS CITY, STATE	101 00478000
PAY TO THE ORDER OF <u>Payee's Name</u>	DATE <u>12-5-09</u>
<u>One hundred twenty-three and</u>	\$ <u>123.45</u>
<u>45/100</u> Dollars	
Financial Institution Name Street Address City, State	Authorized by Drawer
⑆0000067894⑆ ⑆2345678⑆ ⑆0000012345⑆	

⑆0000067894⑆ ⑆2345678⑆ ⑆0000012345⑆

↑ IRD Identification

↑ RCC Identification



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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...”

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# 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



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## 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

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## 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 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

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# 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'

  
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# Return Reason Codes



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# 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

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# Current Return Reasons

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

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## Current Return Reasons

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

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# Current Return Reasons

Administrative Return Codes	Description
I	Image Missing
Q	Ineligible
U	Unusable Image
V	Image Fails Security Check
Y	Duplicate Presentment
1	Does not conform with X9.100-181 (X9 TIFF Standard)
2	Does not conform to the Industry's UCD
3	Warranty Breach (includes rule 8 & 9 claims)

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# 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

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## New Return Reasons

Customer Return Codes	Description
T	Item Cannot Be Re-presented
U	Unusable Image
Y	Duplicate Presentment
4	RCC Warranty Breach (rule 8)
5	Forged and Counterfeit Warranty Breach (rule 9)
6	Retired/Ineligible Routing Number
Administrative Return Codes	Description
T	Item Cannot Be Re-presented
4	RCC Warranty Breach (rule 8)
5	Forged and Counterfeit Warranty Breach (rule 9)
6	Retired/Ineligible Routing Number

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# 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

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# 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.

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# 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

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# 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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- ASC X9 Inc. ([www.x9.org](http://www.x9.org))
- ECCHO ([www.eccho.org](http://www.eccho.org))
  - Attending this presentation will qualify for National Check Professional (NCP) credits from ECCHO. Please check their web site for more information.
- The Federal Reserve Bank of Atlanta ([www.frbatlanta.org](http://www.frbatlanta.org))

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# Questions?



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