

## AAP Train the Trainer Supplement #8 – UCC 4A Quick Reference Guide

<ul style="list-style-type: none"> <li>• <b>Uniform Commercial Code:</b> Uniform body of law that addresses sales and commercial transactions. State adopted in whole or part. Some provisions may be amended by agreement.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Uniform Commercial Code Article 4A (UCC Article 4A)</b> – addresses wholesale (corporate) credit transfers, wire transfers and corporate ACH credit entries (CCD/CTX/IAT). Some provisions may be amended by agreement.</li> </ul>
<ul style="list-style-type: none"> <li>• Entries subject to Regulation E are not subject to UCC Article 4A and Entries subject to UCC Article 4A are not subject to Regulation E.</li> </ul>
<ul style="list-style-type: none"> <li>• UCC Article 4A – applies to on-us entries subject to its provisions – unlike the <i>NACHA Operating Rules</i> which only applies to Entries processed through an ACH Operator</li> </ul>
<ul style="list-style-type: none"> <li>• <b>UCC Article 4A provisions amended by the <i>NACHA Operating Rules</i>:</b> <ul style="list-style-type: none"> <li>• <b><u>Subsection 2.3.3.2 Notice by ODFI to Originator</u></b> <ul style="list-style-type: none"> <li>• Agreement with Originator – entries may be transmitted through the ACH</li> <li>• Notwithstanding other agreements – the laws of the State of New York are applicable</li> <li>• Credit given by RDFI to Receiver is provisional until final settlement occurs</li> <li>• If final settlement does not occur – RDFI entitled to refund from Receiver</li> </ul> </li> <li>• <b><u>Section 3.1.6 Notice by RDFI to Receiver</u></b> <ul style="list-style-type: none"> <li>• Entries may be transmitted through the ACH</li> <li>• Notwithstanding other agreements – the laws of the State of New York are applicable</li> <li>• Credit given by RDFI to Receiver is provisional until final settlement occurs</li> <li>• If final settlement does not occur – RDFI entitled to refund from Receiver</li> <li>• RDFI not required to provide immediate notice of receipt of entry to Receiver</li> </ul> </li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Commercially Reasonable Security Procedures:</b> <ul style="list-style-type: none"> <li>• Security Procedure agreed to by both parties (Originator / ODFI)</li> <li>• Safeguards against fraud – does not require financial institution to insure against <b>all</b> fraud.</li> <li>• Commercially Reasonable – like parties using similar methods.</li> <li>• A “written signature” <b>alone</b> is not a commercially reasonable security procedure under UCC4A</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>UCC Article 4A: Acceptance – liability occurs after acceptance of entry</b></li> <li>• <b>ODFI Acceptance:</b> <ul style="list-style-type: none"> <li>• ODFI – takes no action to reject entry from Originator, acceptance has occurred</li> <li>• ODFI – if no agreement to contrary, ODFI has no obligation to accept</li> <li>• ODFI – should implement procedures for notification of rejection to Originator</li> <li>• ODFI – accepts entry, it cannot later reject entry</li> <li>• ODFI – if rejects entry, it cannot later accept entry</li> <li>• Acceptance by ODFI obligates Originator to pay for transfer if completed and its right not to pay if transfer is not completed - <b>This concept cannot be varied by agreement.</b></li> </ul> </li> </ul>

- **RDFI Acceptance:**

- RDFI – if no agreement, RDFI not required to accept any entry
- RDFI – acceptance occurs when RDFI takes no action to return the entry.
- RDFI – accepts entry when it makes the funds available to Receiver
- RDFI – receives final settlement for the entry

- **Acceptance Does Not Occur at RDFI if:**

- Receiver does not have an account
- Receiver’s account is closed
- RDFI not permitted by law to receive credit for Receiver

- **Provisions of UCC Article 4A that Cannot Be Varied By Agreement:**

- Originators duty to pay ODFI for completed transfers and not to pay for transfers not completed
- RDFI requirement to make payment to Receiver upon acceptance of entry
- Receiver’s right to payment or damages for nonpayment from RDFI
- On-us entries ODFI/RDFI of Receiver – requirement to pay Receiver by settlement date
- If an ODFI is late or sends an improper entry, ODFI is obligated to pay interest to Originator or Receiver for the period of delay
- ODFI sends duplicate or amount greater – right of the Originator to receive a refund from ODFI ( ODFI may seek refund from Receiver)
- ODFI sends amount less than entry – right of the Originator to receive a refund from ODFI
- If ODFI sends entry to incorrect Receiver – right of Originator to refund

- **General Liability for Unauthorized Entries:**

- General rule is Originator **is not** liable for unauthorized entries
- Exception – if the Originator and ODFI **have agreed** to security procedure and ODFI follows security procedure, Originator is liable
- Exception – ODFI will be liable for “interlopers” – unauthorized entries from Originator, not initiated by Originator
- If no agreed upon security procedure between Originator and ODFI – ODFI will be liable

Excellent resource for UCC Article 4A and its impact on the *NACHA Operating Rules* and contractual agreements is NACHA’s publication – ***Revised Uniform Commercial Code Article 4A and the Automated Clearing House Network***