

Member Resources

UCC 4A PRIMER

What you need to know, and how it affects your financial institution.

What is the UCC?

The Uniform Commercial Code (UCC) is a comprehensive body of state law governing commercial transactions, including sales of goods, commercial paper, bank deposits and collections, letters of credit, bulk transfers, warehouse receipts, bills of lading, and investment securities and secured transactions. Prior to the development of the UCC, the law applicable to commercial transactions differed widely from state to state. The UCC was conceived to create modern uniform commercial law, which could be adopted by all the states.

How are UCC 4A and ACH Connected?

Article 4A covers certain funds transfers, including Automated Clearing House (ACH) credit transactions not subject to the Electronic Funds Transfer Act (EFT), from which Regulation E evolved. Article 4A has now been adopted by all 50 states and the District of Columbia.

How will UCC 4A affect my institution?

Article 4A was designed to place liability and set standards for the handling of commercial credit transactions. The article specifically deals with the acceptance of transactions, liability for unauthorized or erroneous entries, returns, cancellations or amendment of payment orders, notices of payment, and “commercially reasonable” security procedures.

ACH Rules regarding UCC 4A

Provisionality –

Under UCC 4A, payment by an RDFI to a Receiver is final. This normally occurs when the funds are made available to the Receiver by the RDFI. Also, UCC 4A will not allow an RDFI to return a payment once it has been “accepted”. Acceptance is defined as either when funds are made available to the receiver or when the receiving financial institution receives final settlement from the ACH Operator, whichever is earlier. Returns after “acceptance” are only valid if the receiver does not have an account with the receiving financial institution, the receiver’s account is closed, or the financial institution is prohibited by law from receiving credits for the receiver’s account.

UCC 4A does allow an RDFI to obtain reimbursement from the Receiver, if a transaction does not settle, which makes payment provisional until the RDFI obtains settlement from the settlement agent (the Fed). It also requires both the Originator and Receiver to be made aware of this rule and for the Receiver to agree to be bound by it.

Notice to Receiver –

Under UCC 4A, the RDFI has to notify the Receiver that a credit has been received by midnight of the business day following the settlement date. If this requirement is not met, the RDFI may owe interest on the entry from the time the notice should have been given to the time it was given.