

**Electronic Check Council
Quick Reference Chart**

**HIGHLIGHTS AND KEY FEATURES OF
ACH CHECK CONVERSION AND CHECK 21**

June 2005

Subject	Check Conversion (ARC and POP)	Truncation (Check 21)
The Basics		
What it is	<p>Paper check payment is converted to an ACH electronic payment. This works as follows:</p> <ul style="list-style-type: none"> • Paper check is tendered for payment. • Using MICR scanner, payee scans MICR data from check. • Payee adds payment amount and name of payee, then transmits data through the ACH Network to debit customer's account. • In ARC, the check is destroyed after conversion; in POP, the check is returned to the checkwriter at the time of payment. <p>These transactions flow through the ACH Network.</p>	<p>Paper check payment is imaged; the image is later converted into a substitute check. The substitute check is used in the paper check collection system. This works as follows:</p> <ul style="list-style-type: none"> • Paper check is captured and converted into a digital image. (This step is not covered by Check 21 Act.) • A FI – the reconverting bank – uses the digital image to create a substitute check, which is a paper reproduction of the original check (front and back) with additional requirements. • Some FIs may choose to exchange images. (This is not covered by Check 21 Act.) <p>The substitute check must bear this legend: "This is a legal copy of your check. You can use it the same way you would use the original check."</p> <p>These transactions flow through the check clearing process; not the ACH Network.</p>
Enabling legislation or rules (see also Legal Framework below)	<i>NACHA Operating Rules</i> Electronic Fund Transfer Act	Check Clearing for the 21 st Century Act
What the enabling legislation or regulation does not cover	Transmission or exchange of copies.	Creation, transmission or exchange of images.

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Why was it developed	Provides benefits such as efficiency and additional consumer protection to nation's payment system by handling cost-effective electronic transactions (faster collection and return of payments), while allowing customers to continue writing checks.	Provides framework for changes in check processing that can ultimately benefit the nation's payment system by handling efficient electronic transactions (faster collection and return of checks), while allowing customers to continue writing checks and to obtain substitute checks that are legal equivalent of original checks.
When service began / will begin	POP: 1999 ARC: 2002	October 28, 2004
Original Check Copies / Image		
Type of allowable non-paper copy of the original paper check	ARC: Reproducible, legible, image, microfilm or copy (copy of front of check required; copy of back of check optional). POP: No copy required; consumer receives the check back at the time of payment.	This is not covered under the Act. It is anticipated that the Truncating Bank will have an image of the front and back of the original check. Other banks in payment system will have appropriate copies such as microfilm, image.
When non-paper copy of original check is made	ARC: In lockbox processing. POP: No copy required; consumer receives the check back at the time of payment.	This is not covered under the Act. It is anticipated that a non-paper copy may be made at point of capture, branch, ATM, lockbox, etc. Other banks in payment system may make non-paper copies during check processing.
Disposition of original paper check	ARC: Destroyed by payee within 14 calendar days. POP: Returned to customer at time of payment.	Not covered by the Act.
Length of time non-paper copy of check is retained	ARC: 2 years; held by ODFI or agent. POP: No copy required; consumer receives the check back at the time of payment.	Not covered by the Act. Covered by UCC (typically requires 7 years).

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How check writer obtains: <ul style="list-style-type: none"> • Paper copy of original check (ACH) • Substitute check (Check 21) 	ARC: Request from FI or payee. POP: Checkwriter already has check.	May receive substitute check in bank statement; may request substitute check from Paying Bank.
Legal Framework and Consumer Protection		
Legal Framework	<ul style="list-style-type: none"> • Electronic Fund Transfer Act • Regulation E • <i>NACHA Operating Rules</i> • Fed Operating Circular 	<ul style="list-style-type: none"> • Check Clearing for the 21st Century Act • Regulation CC • UCC • Clearing house rules • Fed Operating Circular
Legal status of payment	Covered by electronic banking law and regulations. Check becomes a source document and is not negotiated; it is therefore not covered by check law.	Covered by Check 21 and check law. Substitute check (that accurately represents all information on the front and back of the original check and bears the legal legend) is the legal equivalent of the original check for all purposes.
Relationship to state law	Applicable state laws must be followed; however, ACH-oriented state laws are rare.	Supersedes state law that is inconsistent with Act.
Underlying standards	NACHA Operating Rules	X9B standards X9.100-140 standard
Proof of payment	(1) Payment listing on check statement (includes payee name) (2) Copy of check	Same as in current paper check environment but the substitute check is used in place of the original check.
Consumer protection	Right to dispute payment and amount (set forth in Electronic Fund Transfer Act and Regulation E).	Expedited Recredit (set forth in Check Clearing for the 21 st Century Act); Regulation CC; UCC.
Timeframe for consumer disputes	60 days from day of settlement.	For Expedited Recredit Only – Generally, 40 calendar days from date the statement is mailed or substitute check is made available to consumer.
Timeframe for consumer dispute resolution.	Generally within 10 business days from receiving notice of error. Extended up to 45 business days with provisional credit made to consumer.	For Expedited Recredit Only – Generally within 10 business days after the FI received the claim. Extended up to 45 calendar days for safeguard exceptions and value of claims over \$2,500.

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Eligible Items		
Types of checks eligible	Consumer checks drawn on U.S. banks in U.S. dollars.	All checks drawn on U.S. banks in U.S. dollars.
Can RDFI/Paying Bank choose not to receive these transactions?	No; all RDFIs must accept these transactions.	No; all paying banks must accept substitute checks.
Checkwriter Authorization		
Authorization required from checkwriter to convert or truncate	Billor or retailer obtains authorization from checkwriter to convert checks	None
Checkwriter right of refusal to allow conversion or truncation (i.e., check electronification)	Payee must be allowed an "opt out" of conversion	None under Check 21. Act does not cover other forms of check electronification, which may require authorization.
Provides information about authorization	Payee provides information about authorization at time authorization is obtained. Checkwriter can contact payee or FI for more information.	FIs must provide consumer awareness disclosure to consumers who receive substitute checks. Payment authorization is customer signature.
Returns		
Reasons for return	Usual ACH reasons plus POP- and ARC-specific reasons	Usual check reasons; possibly violations of warranties in the Act
Stop payments allowed	Yes	Yes
Return as unauthorized	Yes, with statement under penalty of perjury	Same as original check
Maximum number of presentments	3	Not covered by the Act; generally 2.
Other Information		
Other names for this service	Electronic check, eCheck ARC: Accounts Receivable Conversion POP: Electronic check conversion	Check truncation; CTA; Check Truncation Act; Check 21

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For more information	<ul style="list-style-type: none"> • NACHA – The Electronic Payments Assn. • Regional Payments Assns. • Electronic-check.org • <i>NACHA Operating Rules</i> 	<ul style="list-style-type: none"> • ABA – ABA.com • BAI – BAI.org • ICBA- ICBA.org • ECCHO – ECCHO.org • Federal Reserve • NACHA / Electronic Check Council: Ecc.nacha.org • Most banking trade associations • The Act; regulations • <i>Congressional Record</i>