

Application of Key UCC 4A Concepts and Terms to the Real-Time Payment System

Note: Capitalized terms have the same meaning as provided in the RTP Rules, unless otherwise noted.

UCC 4A Concept or Term	UCC 4A Definition or Provision	RTP Equivalent or Application	Notes
Scope of 4A	4A applies to funds transfers as defined in 4A-104, except for funds transfers that are in any way governed by the Electronic Funds Transfer Act provisions that apply to electronic funds transfers (EFTs). (4A-102 and 4A-108). The Electronic Funds Transfer Act EFT provisions govern any transfer of funds initiated electronically that instructs a financial institution to debit or credit a consumer’s account. (12 CFR 1005.3(b))	4A will apply to funds transfers made through RTP that do not involve credits or debits to consumer asset accounts as defined in Regulation E. As a general rule this means that a RTP funds transfer must have both a commercial Sender and a commercial Receiver in order for 4A to apply to the transfer.	For purposes of this schedule, all references to Sender and Receiver mean commercial customers of a RTP Participant.
Funds Transfer	The series of transactions, beginning with the originator’s payment order , made for the purpose of making payment to the beneficiary of the originator’s payment order. A funds transfer is completed by acceptance by the beneficiary’s bank of a payment order for the benefit of the beneficiary of the originator’s payment order. (4A-104(a))	RTP Payments are made directly from a Sending Participant to a Receiving Participant. There are no intermediary banks. Hence, a funds transfer through RTP is the series of transactions beginning with the Sender’s Payment Instruction to the Sending Participant to pay the Receiver and ending with the Receiving Bank’s acceptance of a Payment Message for the benefit of the Receiver of the Sender’s Payment Instruction.	

<p>Payment Order</p>	<p>An instruction of a sender to a receiving bank, transmitted to a receiving bank, transmitted orally, electronically, or in writing to pay or cause another bank to pay, a fixed or determinable amount of money to a beneficiary if (i) the instruction does not state a condition to payment to the beneficiary other than time of payment; (ii) the receiving bank is to be reimbursed by debiting an account of, or otherwise receiving payment from, the sender; and (iii) the instruction is transmitted by the sender directly to the receiving bank or to an agent, funds-transfer system, or communication system for transmittal to the receiving bank. (4A-103(a))</p>	<p>A Sender’s Payment Instruction to the Sending Bank is a payment order to the extent it meets the three criteria provided in 4A-103(a). A Sending Participant’s Payment Message to the Receiving Participant is also a payment order so long as the Payment Message includes no condition to payment other than time of payment. The other two criteria of 4A-103(a) are met since the Receiving Participant will receive payment from the Sending Participant through RTP settlement and the Payment Message will be transmitted to RTP, which is a funds transfer system.</p>	
<p>Funds-Transfer System</p>	<p>A wire transfer network, an automated clearing house, or other communication system of a clearing house or other association of banks through which a payment order by a bank may be transmitted to the bank to which the order is addressed. (4A-105(a)(5))</p>	<p>RTP is a communication system of a clearing house through which a Payment Message (payment order) can be transmitted from a Sending Participant to a Receiving Participant. Hence, RTP is a funds transfer system.</p>	<p>Because RTP is a funds transfer system, its rules constitute funds transfer system rules. With certain exceptions, such rules govern the rights and obligations of Participants, even if the rules conflict with 4A or indirectly affect another party to the funds transfer. (4A-501(b)) A funds transfer system is an agent of the sender for purposes of transmitting the sender’s payment order to the receiving bank. (4A-206(a))</p>

Originator	The sender of the first payment order. (4A-104(c))	The first payment order in a RTP funds transfer is the Sender's Payment Instruction. Hence, the Sender is the originator.	
(4A) Sender	The person giving the instruction to the receiving bank. (4A-103(a)(5))	Both 4A and the RTP Rules use the term sender but the meaning under 4A is broader than the meaning under the rules. The RTP Sender is a 4A sender as between it and the Sending Participant. The Sending Participant is also a 4A sender as between it and the Receiving Participant.	
Receiving Bank	The bank to which the sender's instruction is addressed. (4A-103(a)(4))	The Sending Participant is a receiving bank as between it and the Sender. The Receiving Participant is a receiving bank as between it and the Sending Participant.	
Beneficiary Bank	The bank identified in a payment order in which an account of the beneficiary is to be credited pursuant to the order. (4A - 103(a)(3))	The Receiving Participant is the beneficiary bank as it holds the account of the beneficiary that is to be credited pursuant to the Payment Message.	
Beneficiary	The person to be paid by the beneficiary's bank. (4A-103(a)(2))	The Receiver is the beneficiary.	

<p>Cut-Off Times</p>	<p>A receiving bank may establish a cut-off time or times on a funds-transfer business day for the receipt and processing of payment orders. (4A-106 (a))</p>	<p>As RTP is a continuous payment system a RTP Day is defined in the rules as a calendar day, beginning at 12:00 a.m. E.T. The RTP Operating Rules provide that a Receiving Participant may not establish cut-off times for receiving Payment Instructions or Payment Messages that would cause the RTP Payment related to a Payment Instruction or Payment Message to be made on a different RTP Day than the RTP Day on which the Payment Instruction or Payment Message was received or otherwise delay funds availability as required by these RTP Operating Rules. (Operating Rule V(B))</p>	
<p>Cancellation or Amendment of a Payment Order</p>	<p>A Sender is generally permitted to cancel or amend a payment order so long as the communication to cancel or amend is received by receiving bank at a time and in a manner affording the receiving bank a reasonable opportunity to act on the communication before the bank accepts the payment order. (4A-211(a) and (b)) An unaccepted payment order is canceled by operation of law at the close of the fifth funds transfer business day of the receiving bank after the execution date or payment date of the order. (4A-211(d))</p>	<p>Practically speaking RTP will not support messaging that would be used to communicate cancellation or amendment, nor is it likely that such a communication could be made by another channel in time to provide a receiving bank a reasonable opportunity to act prior to acceptance, given that receiving banks must generally reject or accept a RTP payment within seconds. Nevertheless the RTP Rules explicitly provide that a Sending Participant cannot cancel or amend a Payment Message that has been sent to the system. However, a Payment Message can be cancelled by TCH as agent of the Sending Participant in the event of a "time out."</p>	<p>RTP has a "time out" feature that will cancel a Payment Message if the Receiving Participant does not respond to the Message with a Payment Message Response within a specified amount of time. Such a cancellation will be made by TCH as agent of the Sending Bank. (Operating Rule IV(A)(4))</p>

Acceptance	<p>A receiving bank other than the beneficiary bank accepts a payment order when it executes order, though the order cannot be accepted before the execution date of the order. (4A-209(a) and (d)) A receiving bank executes a payment order by issuing a payment order that is intended to carry out the payment order received by the bank. (4A-301)</p>	<p>The Sending Participant is a receiving bank other than a beneficiary bank. The Sending Bank’s initiation of a Payment Message to RTP constitutes execution of the Sender’s Payment Instruction and, thus, acceptance of the Sender’s Payment Instruction.</p>	
	<p>A beneficiary bank accepts a payment order at the earliest of (i) when the bank pays the beneficiary or notifies the beneficiary of receipt of the order or that the beneficiary’s account has been credited for the order unless the notice indicates that the bank is rejecting the order or that funds with respect to the order may not be withdrawn or used until receipt of payment from the sender of the order, or (ii) when the bank receives payment of the entire amount of the sender’s order.¹ (4A-209(b)) However, even if one of the means of accepting a payment order under 4A-209(b) has occurred, a beneficiary bank will not have accepted a payment order if (i) the beneficiary does not have an account with beneficiary bank; (ii) the beneficiary’s account is closed, or (iii) the beneficiary bank is not permitted by law to receive</p>	<p>The Receiving Participant is the beneficiary bank. Because a Receiving Participant will receive immediate and final settlement for any Payment Message that it does not immediately reject with a “reject” Payment Message Response, generally the Participant’s acceptance of a Payment Message will occur when the payment is settled by the system. Acceptance under 4A triggers an obligation for the Receiving Participant to pay the Receiver.</p> <p>However, with respect to a Payment Message to which the Receiving Participant provides an “accept without posting” response, the RTP Operating Rules vary from 4A-209(b). Operating Rule V(E)(2)(b) provides that a Payment Messages that is accepted without posting is not accepted for purposes of</p>	

¹ There is a third time at which acceptance can occur for a beneficiary bank in the situation in which (i) the bank holds an account of the sender; (ii) the amount of the payment order is fully covered by a withdrawable balance in the sender’s account; and (iii) payment is to be made by debit to the account. (4A-209(b)(3) and Comment 6 to 4A-209) This form of acceptance is not applicable to RTP as settlement is always made by RTP and not by debit to a Sending Participant’s account with the Receiving Participant.

	credits for the beneficiary’s account. (4A-209(c))	<p>Article 4A (notwithstanding the fact that the payment has been settled) unless the Receiving Participant submits a follow up “accept” message, as provided in Rule V(E)(d).</p> <p>A Payment Message that was originally “accepted” by the Receiving Participant would also be subject to 4A-209(c), which provides that acceptance does not occur under 4A-209(b) if the Receiving Participant determines that the Receiver does not have an account with the bank, the Receiver’s account is closed, or that the bank is not permitted by law to receive credits to the Receiver’s account. A Payment Message that remains unaccepted at the close of the fifth RTP Day following the Receiving Participant’s receipt of the message will be cancelled by operation of law. (4A-211(d))</p>	
Rejection	A payment order is rejected by the receiving bank by a notice of rejection transmitted to the sender orally, electronically, or in writing. (4A-210)	A Receiving Participant rejects a Payment Message either by sending a “reject” Payment Message Response at the time the Payment Message is sent to it, or, if the Receiving Participant sends an “accept without posting” Payment Message Response, it may reject the Payment Message by later sending a “reject” Payment Message Response at the time it determines that it will not make funds available Receiver.	
Obligation to Pay Beneficiary	Subject to certain exceptions that are not applicable to RTP, if a beneficiary bank	Once a Receiving Participant accepts a Payment Message it will be obligated to	The right of a beneficiary to receive payment and

	<p>accepts a payment order, the bank is obliged to pay the amount of the order to the beneficiary. Payment is due on the payment date of the order. Failure to pay the beneficiary on the payment date of the order may result in consequential damages if the beneficiary seeks such damages, unless the bank did not pay because of reasonable doubt concerning the right of the beneficiary to payment. (4A-404(a))</p>	<p>pay the Receiver. The RTP Rules accelerate the timing of payment by requiring that a Receiving Participant that provides an “accept” Payment Message Response to a Payment Message must make funds from the Payment Message immediately available to the Receiver upon the Receiving Participant’s receipt of a message from TCH acknowledging receipt of the Receiving Participant’s “accept” Payment Message Response.</p>	<p>damages as provided in 4A-404(a) cannot be varied by agreement or funds transfer system rule. (4A-404(c)) The RTP Rules do not vary the Receiver’s right to payment but create an additional obligation of the Receiving Participant to pay the Receiver more quickly than 4A requires.</p>
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