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ACH RULES UPDATES FOR BUSINESS ORIGINATORS

April 2022

RULE CHANGES

As an originator of ACH entries, it is important to stay up-to date with the current *ACH Rules* and the changes to those *Rules*. The following 2021–2022 changes to the *Nacha® Operating Rules and Guidelines* are most likely to effect Originators of ACH entries. This is not an all–inclusive listing of *Rules* changes.

March 19, 2021

The WEB Debit Account Validation Rule

ACH Originators of WEB debit entries are required to use a "commercially reasonable fraudulent transaction detection system" to screen WEB debits for fraud. This existing screening requirement is being supplemented to make it explicit that "account validation" is part of a "commercially reasonable fraudulent transaction detection system." The supplemental requirement applies to the first use of an account number, or changes to the account number.

Additional information can be found here: **Supplementing Fraud Detection Standards for WEB Debits**

June 30, 2021

Reversals

This Rule explicitly addresses improper uses of reversals. It expands the permissible reasons for a reversal to include a "wrong date" error — 1) the reversal of a debit Entry that was for a date earlier than intended by the Originator, or 2) a credit Entry that was for a date later than intended by the Originator.

The Rule establishes formatting requirements for reversals, beyond the current standardized use of the Company Entry Description field ("REVERSAL"):

- The Company ID, SEC Code, and amount fields of the reversal must be identical to the original entry
- The contents of other fields may be modified only to the extent necessary to facilitate proper processing of the reversal
- This is the same approach as the formatting requirements for Reinitiated Entries

In addition, the *Rules* explicitly permit an RDFI to return an improper REVERSAL:

- R11 for consumer accounts, 60–day return timeframe upon receiving a consumer claim
- R17 for non–consumer accounts, 2–day return timeframe
- An RDFI will be permitted to use R17 to return an improper Reversal that it identifies on its own (i.e., not based on a customer contact), 2–day return timeframe

Enforcement

This Rule defines an Egregious Violation as:

- A willful or reckless action, and
- Involves at least 500 Entries or involves multiple Entries in the aggregate amount of at least $500K

The Rule also allows the ACH Rules Enforcement Panel to determine whether a violation is egregious, and to classify an Egregious Violation as a Class 2 or 3 Rules Violation.

- The sanction for a Class 3 violation can be up to $500,000 per occurrence and a directive to the ODFI to suspend the Originator or Third–Party Sender

In addition, the Rule expressly authorizes Nacha to report Class 3 Rules violations to the ACH Operators and industry regulators.

Additional information can be found here: **Reversals and Enforcement**

September 17, 2021

The Standing Authorization Rule

A Standing Authorization is defined as an "advance authorization by a consumer of future debits at various intervals." Under a Standing Authorization, future debits may be initiated by the consumer through some further action, as distinct from recurring entries which require no further action and occur at regular intervals.

In addition to defining a Standing Authorization, other aspects of the rule include:

- A Standing Authorization may be obtained in writing or orally (Oral Authorizations)
- Individual payments initiated based on the Standing Authorization will be defined as Subsequent Entries
- Individual Subsequent Entries may be initiated in any manner identified in the Standing Authorization

This rule also will allow Originators some flexibility in the use of SEC codes for individual Subsequent Entries:

- Allows an Originator to use the TEL or WEB codes for Subsequent Entries when initiated by either a telephone call or via the Internet/wireless network, respectively, regardless of how the Standing Authorization was obtained
- In such cases, the Originator will not need to meet the authorization requirements of TEL or WEB, but will need to meet the risk management and security requirements associated with those codes

Oral Authorization

This rule will define and allow "Oral Authorization" as a valid authorization method for consumer debits distinct from a telephone call.

- Currently, only the TEL transaction type has requirements and addresses risks specific to an oral authorization; but it is specific to a telephone call
- Many newer methods and channels make use of verbal interactions and voice–related technologies

Additional information can be found here:
Meaningful Modernization

Same Day ACH Update

As of March 19, 2021, Same Day ACH expanded access by allowing Same Day ACH transactions to be submitted to the ACH Network for an additional two hours every business day.

As of March 18, 2022, the *Rules* will continue to expand the capabilities of Same Day ACH by increasing the Same Day ACH dollar limit to $1 million per payment which is expected to improve Same Day ACH use cases and contribute to additional adoption.

FedACH® Processing Schedule

(effective March 19, 2021)

Same Day Eligible Forward Items

Transmission Deadline[1]	Target Distribution[2]	Settlement Schedule[3]
10:30 a.m. ET (1030 ET)	Noon ET (1200 ET)	1:00 p.m. ET (1300 ET) – current day
2:45 p.m. ET (1445 ET)	4:00 p.m. ET (1600 ET)	5:00 p.m. ET (1700 ET) – current day
4:45 p.m. ET (1645 ET)	5:30 p.m. ET (1730 ET)	6:00 p.m. ET (1800 ET) – current day

Future Dated Forward Items

Transmission Deadline[1]	Target Distribution[2]	Settlement Schedule[3]
10:30 a.m. ET (1030 ET)	Noon ET (1200 ET)	8:30 a.m. ET (0830 ET) – future business day[4]
2:45 p.m. ET (1445 ET)	4:00 p.m. ET (1600 ET)	8:30 a.m. ET (0830 ET) – future business day[4]
4:45 p.m. ET (1645 ET)	5:30 p.m. ET (1730 ET)	8:30 a.m. ET (0830 ET) – future business day[4]
8:00 p.m. ET (2000 ET)	10:00 p.m. ET (2200 ET)	8:30 a.m. ET (0830 ET) – future business day[4]
2:15 a.m. ET (0215 ET)	6:00 a.m. ET (0600 ET)	8:30 a.m. ET (0830 ET) – future business day[4]

Understanding your role regarding the security of Non–Public Personal Information

The *Nacha Operating Rules* require that each Originator and Third–Party Sender must have policies and procedures in place regarding the initiation, processing, and the storage of personal, non-public information, entries and files. Your security and the policies and procedures you have in place should accomplish the following three requirements:

1. Protect the confidentiality and integrity of the personal, non–public information, including financial information that you have on file, and the file information itself, until destruction. Other non–public information you may have on file includes EIN or tax ID numbers, dates of birth, social security numbers, and addresses.
2. Protect against anticipated threats and/or hazards that would threaten the security of the protected information until its destruction.
3. Protect against the unauthorized use of that protected information which could cause harm to that individual and/or business.

Originators also need to have information in their security policies and procedures indicating they have systems in place that will comply with the ACH security framework. Security policies and procedures should be reviewed on an annual basis, or more frequently depending on your business needs.

Sound Business Practices: Corporate Account Takeover

1. Utilize dual control for all online transactions.
2. Use and keep all anti–virus and malware detection and prevention up to date.
3. Restrict online banking access to within business networks and firewalls. Avoid public networks.
4. Minimize computer use where online banking is performed. Do not use this computer for general online navigation and avoid social networks.
5. Employ "safe browsing" software that prevents malware and key–logging software from running.
6. Monitor and reconcile your accounts daily and be diligent in detecting anomalies.
7. Use the alerts provided by your financial institutions' online banking system to notify of transaction creation.
8. Utilize out–of–bank authentication at login and also at transaction creation.
9. Keep account limits as close to business needs as possible.
10. Utilize additional fraud-protection services like "Positive Pay" and "ACH Block" to proactively prevent fraud.

Authorizations

An authorization is a document that is received by the Originator from the Receiver which authorizes the Originator to initiate a transaction on behalf of the Receiver.

Consumer authorizations must be in writing and signed or similarly authenticated by the receiver.

- The receiver must also receive a copy of the written authorization
- The terms of the authorization must be clearly stated and understandable
- Must contain instructions for termination
- Originators are required to retain the authorization for two years from the termination or the revocation of the authorization
- If the amount of an authorized debit entry changes or is outside the specified range agreed upon, the originator must provide a notice to the receiver of that change at least 10 calendar days prior to the initiation of that debit
- If the date on which the debit entry is to be scheduled changes, the originator must provide notice to the receiver of the change at least 7 calendar days prior to the date the debit is to be withdrawn

Standard Entry Class Code

A Standard Entry Class Code (SEC) is a mandatory three–character code that is used in all batches to identify the various types of entries within a batch.

Ensuring you are using the correct SEC code helps you limit your liability for return entries, and helps you avoid potential fines that may be assessed for using the improper SEC code. The most commonly used SEC codes:

PPD — Pre-arranged Payment or Debit

- Most commonly used for direct deposit
- For business to consumer use only
- Written authorization must be on file with recipient if you are debiting their account

CCD — Cash Concentration or Disbursement

- For business to business use only
- Can be used for moving funds between a business's own accounts at different institutions
- Used for payments or debits to other businesses
- Agreements are handled by contract authorization between companies

You **cannot** combine different recipient types (consumer, business) within a single batch. Different SEC codes are required based on the recipient type.

Example: You cannot generate an "ACH Batch" that contains employees for weekly payroll and also businesses you are paying for invoices or other payment needs. You would need to originate one PPD batch containing all of the employee transactions, and one CCD batch containing all of the B2B transactions.

Ensure proper use of Effective Date

This is the trigger for Same Day ACH Entries. Improper use could result in unintended Same Day ACH and associated fees.

Understanding Returns and Return Codes

Return codes are used when the receiving bank is unable to post an entry to the receiver's account and may return the entry back to the originating bank.

The financial institution will notify you of a return and then credit or debit the amount to your account to reflect the nature of the return. Return notification is typically provided to you by regular mail, email or online notification. Originators should receive return information within two banking days from the settlement date.

The codes detail why the funds are being returned. The most common return codes used:

R01	Insufficient funds
R02	Account closed
R03	No account or unable to locate account
R04	Invalid account number
R06	Returned per ODFI's request
R07	Authorization revoked by customer
R08	Payment stopped or stop payment on item
R09	Uncollected funds
R10	Customer advises not authorized
R11	Customer advises entry not in accordance with the terms of the authorization
R16	Account frozen
R23	Credit entry refused by receiver
R29	Corporate customer advises not authorized

Re–Initiating a Returned Item

- The only transactions that can be re–presented for settlement are (1) those returned for Insufficient Funds or Uncollected Funds (there is a limit of two re–presentments within 180 days of the original entry date), or (2) a transaction that was returned for Stop Payment (if re–presenting it was approved by the receiving party).
- When re–initiating a returned item, the words "RETRY PYMT" in all capitalized letters are required in the Company Entry Description field. Identical content is required in the following fields: Company Name, Company ID, and Amount. Modifications to other fields are permitted but only to those necessary to correct an administrative error made during processing.

Reversals

If an Originator creates erroneous ACH entries or files, corrections may be made by initiating reversing entries or files.

An erroneous entry or file is defined as:

- A duplicate of an entry previously initiated by the originator or ODFI
- Orders payment to or from receiver not intended to be credited or debited
- Orders payment in a dollar amount different then was intended
- Originated within five banking days following settlement date of the erroneous entry

Reversals are Requests

They are not mandatory transactions for the receiving financial institution, and they do not guarantee you will recover any funds. Receiving financial institutions do not have to put themselves in a negative position (i.e. overdraw the receiver's account) to process a reversal. Reversals may be returned by the receiving institution.

1. REVERSAL (must be in all capitalized letters) in the description field of the Company Batch Header Record.
2. Will need to build a new Batch Record.
3. Change the transaction codes to offset entries (i.e., debits reverse credits).
4. The effective date should be the same date as the original entry/file date for future dated files.
5. Notify the receiver of the reversal by the settlement date.
6. In the case of an erroneous file, transmit a correcting file with the reversing file.

Note: We recommend that Originators use an authorization agreement (credits) with their Receivers that states they are authorized to debit/reverse any entries made in error. This is good business practice and will help with any disputes in the future.

Notification of Change (NOC) (COR)

If the information on a transaction you originated is incorrect, you may receive a non-dollar correction transaction called a Notification of Change (NOC). It specifies information such as:

- Correct account number
- Correct routing/transit number
- Correct account type (checking/savings etc.)

For example, if a receiving bank (also called Receiving Depository Financial Institution or RDFI) has been through a merger, it may send you a NOC to provide new information that should be included on future transactions you originate.

The financial institution will notify you of any NOCs received.

Changes need to be made before originating future transactions.

This is important to avoid disruption of payments or fines for uncorrected information which your financial institution may pass on to you. By following the NOC process, the receiving bank ensures the information provided on future ACH transactions will be correct. By complying with the NOC, your business can originate future transactions without having to obtain a new authorization.

Common notification of change (NOC) codes:

C01	Incorrect bank account number
C02	Incorrect transit/routing number
C03	Incorrect transit/routing number and bank account number
C04	Bank account name change
C05	Incorrect payment code
C06	Incorrect bank account number and transit code
C07	Incorrect transit/routing number, bank account number and payment code

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