



NOTICE OF AMENDMENT
TO THE
2019 NACHA OPERATING GUIDELINES

February 1, 2019
SUPPLEMENT #1-2019

Changes to the *NACHA Operating Guidelines* on
ACH Rules Compliance Audits

Effective Date: January 1, 2019

SUMMARY

On November 2, 2018, the NACHA Voting Membership approved an amendment to the *NACHA Operating Rules* on the ACH Rules Compliance Audit Requirement. The amendment became effective January 1, 2019. Text changes to the *NACHA Operating Rules* resulting from the ACH Rules Compliance Audit Requirement amendment are included in the 2019 edition of the *NACHA Operating Rules & Guidelines* as part of Supplement #2-2018.

This Supplement #1-2019 contains updates to the *NACHA Operating Guidelines* resulting from the ACH Rules Compliance Audit Requirement modifications. Note that, in addition to adding a new chapter, some chapters are replaced in part, and others in their entirety. Please use this document in conjunction with your 2019 *NACHA Operating Rules & Guidelines* to ensure that your *NACHA Operating Guidelines* is up to date.

The following text replaces Chapter 13, ODFI Audit Requirements and Rules Compliance, in its entirety.

SECTION II

Originating Depository Financial Institutions

CHAPTER 13

ODFI Audit Requirements and Rules Compliance

RULES COMPLIANCE AUDITS

All ODFIs, and any Third-Party Service Providers (including Third-Party Service Providers acting in the role of Third-Party Senders) that process entries and perform a function of ACH processing or a requirement of the *NACHA Operating Rules* that is otherwise applicable to an ODFI, must perform an annual audit to determine their compliance with the provisions of the *Rules*. Refer to Chapter 56 (Rules Compliance Audits) within these *Guidelines* for specific details about the audit requirements, as well as recommendations on issues to consider when conducting an audit of rules compliance. The *Rules* do not prescribe a specific methodology to use for the completion of an annual audit; instead, ODFIs should rely on the guidance of their auditors with respect to the specific auditing practices and procedures that should be followed. While not required by the *Rules*, an ODFI may also wish to audit other aspects of its ACH operations in conjunction with its annual rules compliance audit. These aspects could include OFAC compliance, ACH business continuity plans, and ACH risk management policies.

ACH RULES ENFORCEMENT

The rules enforcement process is designed to maintain the quality of the ACH Network by ensuring that Participating DFIs comply with the *NACHA Operating Rules*. This process provides a mechanism through the National System of Fines for a Participating DFI or an ACH Operator that is a party to an ACH transaction to formally document an alleged rules violation. The rules enforcement process outlines specific requirements for reporting and investigating such potential violations.

The regional payments associations offer assistance with rules compliance audits, compliance issues, and quality concerns, which can prevent DFIs from entering the rules enforcement process. In addition, many regional payments associations have established their own processes for reporting incidents of possible ACH rules violations.

For detailed information on reporting an incident of non-compliance with the requirements of the NACHA Operating Rules, please contact your regional payments association or refer to Chapter 51 in these Guidelines.

The following text replaces Chapter 30, RDFI Audit Requirements and Rules Compliance, in its entirety.

SECTION III

Receiving Depository Financial Institutions

CHAPTER 30

RDFI Audit Requirements and Rules Compliance

RULES COMPLIANCE AUDITS

All RDFIs, and any Third-Party Service Providers that process entries and perform a function of ACH processing or a requirement of the *NACHA Operating Rules* that is otherwise applicable to an RDFI, must perform an annual audit to determine their compliance with the provisions of the *Rules*. Refer to Chapter 56 (Rules Compliance Audits) within these *Guidelines* for specific details about the audit requirements, as well as recommendations on issues to consider when conducting an audit of rules compliance. The *Rules* do not prescribe a specific methodology to use for the completion of an annual audit; instead, RDFIs should rely on the guidance of their auditors with respect to the specific auditing practices and procedures that should be followed. While not required by the *Rules*, an RDFI may also wish to audit other aspects of its ACH operations in conjunction with its annual rules compliance audit. These aspects could include OFAC compliance, ACH business continuity plans, ACH risk management policies, and compliance with 31 C.F.R. Part 210 and the Green Book for processing Federal Government ACH transactions.

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The regional payments associations offer assistance with rules compliance audits, compliance issues, and quality concerns, which can prevent DFIs from entering the rules enforcement process. In addition, many regional payments associations have established their own processes for reporting incidents of possible ACH rules violations.

For detailed information on reporting an incident of non-compliance with the requirements of the NACHA Operating Rules, please contact your regional payments association or refer to Chapter 51 in these Guidelines.

The following text replaces the last topic, Rules Compliance Audit Requirements, of Chapter 50, Third-Party Service Providers.

SECTION VI

Special Topics

CHAPTER 50

Third-Party Service Providers

RULES COMPLIANCE AUDIT REQUIREMENTS

The *NACHA Operating Rules* require any Third-Party Service Provider or Third-Party Sender that performs a function of ACH processing on behalf of an ODFI or RDFI to conduct an annual audit of compliance with the requirements of the *NACHA Operating Rules*. Thus,

- to the extent that any Third-Party Service Provider (including any Third-Party Service Provider acting in the role of a Third-Party Sender) has agreed with an ODFI or another Third-Party Sender to process entries and perform a function of ACH processing or a requirement of the *Rules* that is otherwise applicable to an ODFI, the Third-Party Service Provider must audit its compliance with the *Rules* as if it were the ODFI; and
- to the extent that any Third-Party Service Provider has agreed with an RDFI to process entries and perform a function of ACH processing or a requirement of the *Rules* otherwise applicable to an RDFI, the Third-Party Sender must audit its compliance with the *Rules* as if it were the RDFI.

While not an exhaustive list, examples of ACH processing functions that a Third-Party Service Provider/Third-Party Sender might perform on behalf of an ODFI or another Third-Party Sender include creating ACH files, monitoring Originators' origination and return activity, enforcing restrictions on the types of entries originated, or acting as a sending point for the ODFI's forward entries or a receiving point for the ODFI's returns and NOCs. Similarly, examples of processing functions that a Third-Party Service Provider might perform on behalf of an RDFI include acting as a sending or receiving point for the RDFI, posting entries, and processing returns and NOCs.

Third-Party Service Providers and Third-Party Senders should review their business models and agreements with the financial institutions or other Third-Party Senders for which they provide ACH services, and identify the specific ACH functions they perform on behalf of those ODFIs, Third-Party Senders, or RDFIs. To the extent that a Third-Party assumes a specific function or responsibility of either ODFI or RDFI, the Third-Party is required to audit its compliance with the rules as if it were the ODFI or RDFI.

For detailed information and guidance on issues that may fall within a rules compliance audit, refer to Chapter 56 (Rules Compliance Audits) in these Guidelines.

The following text represents a new chapter in the 2019 Guidelines, Chapter 56, Rules Compliance Audits.

SECTION VI

Special Topics

CHAPTER 56

Rules Compliance Audits

The *NACHA Operating Rules* require each Participating DFI (as well as any Third-Party Service Provider and Third-Party Sender that has agreed with a Participating DFI or another TPS to process entries) to conduct an annual audit of its compliance with the *Rules*. The following discussion is intended to provide parties subject to an ACH audit with recommendations and guidance on key areas to be considered when conducting such an audit.

This chapter provides Participating DFIs, Third-Party Service Providers, and Third-Party Senders with highlights of the most critical components of an audit of compliance with the *NACHA Operating Rules*. The audit is not limited to compliance with any specific rule or group of rules, and parties subject to the audit obligation should examine all *Rules* provisions relevant to the participant's role in the ACH Network. Topics listed within this chapter are provided for convenience and ease of use, but may not be a fully inclusive recap of all rules obligations.

Although the obligation to conduct an audit relates specifically to a participant's compliance with the provisions of the *NACHA Operating Rules*, Participating DFIs, Third-Parties, and their auditors may also consider it appropriate to conduct a broader examination of a financial institution's ACH operations, policies, procedures, and regulatory compliance as part of a general ACH audit. These aspects could include OFAC compliance, ACH business continuity plans, ACH risk management policies, and compliance with 31 C.F.R. Part 210 and the Green Book for processing Federal Government ACH transactions.

The descriptions of rules here are not intended to modify or limit the language of the *Rules* themselves or the obligation of Participating DFIs, Third-Party Service Providers, or Third-Party Senders to comply with, or to audit compliance with, such rules.

GENERAL AUDIT REQUIREMENTS

Who Must Audit, When, and How?

The *NACHA Operating Rules* require the following parties to conduct annual audits of their compliance with the *NACHA Operating Rules* no later than December 31st of each year:

- Each ODFI, and any Third-Party Service Provider (including any Third-Party Service Provider acting in the role of a Third-Party Sender) that has agreed with an ODFI or another Third-Party Sender

to process entries and perform a function of ACH processing or a requirement of the *Rules* that is otherwise applicable to an ODFI; and

- Each RDFI, and any Third-Party Service Provider that has agreed with an RDFI to process entries and perform a function of ACH processing or a requirement of the *Rules* otherwise applicable to an RDFI.

While not an exhaustive list, examples of ACH processing functions that a Third-Party Service Provider/Third-Party Sender might perform on behalf of an ODFI or another Third-Party Sender include creating ACH files, monitoring Originators' origination and return activity, enforcing restrictions on the types of entries originated, or acting as a sending point for the ODFI's forward entries or a receiving point for the ODFI's returns and NOCs. Similarly, examples of processing functions that a Third-Party Service Provider might perform on behalf of an RDFI include acting as a sending or receiving point for the RDFI, posting entries, and processing returns and NOCs.

Third-Party Service Providers and Third-Party Senders should review their business models and agreements with the financial institutions or other Third-Party Senders for which they provide ACH services, and identify the specific ACH functions they perform on behalf of those ODFIs, Third-Party Senders, or RDFIs. To the extent that a Third-Party assumes a specific function or responsibility of either ODFI or RDFI, the Third-Party is required to audit its compliance with the rules as if it were the ODFI or RDFI. For purposes of this Audit chapter, the Third-Party Service Provider/Third-Party Sender may refer to the respective sections on ODFIs and RDFIs for guidance on issues that may fall within a rules compliance audit.

The *Rules* do not prescribe the manner or methodology for completing the audit. The audit may be either an internal audit or an external audit, provided that it is conducted in accordance with standard auditing procedures under the direction of the audit committee, audit manager, senior level officer, or independent (external) examiner or auditor of the Participating DFI, Third-Party Service Provider, or Third-Party Sender.

Proof of Completion of Audit, Record Retention

Each party subject to the audit requirement must retain proof that it has completed an audit of compliance in accordance with the *Rules*. Participating DFIs, Third-Party Service Providers, and Third-Party Senders are required to keep documentation supporting the completion of their audits for six years from the date of the audit, and they must provide that information to NACHA upon request. Acceptable documentation may include, but is not limited to, a letter from an internal, outside or independent auditor indicating satisfactory performance of all audits.

The failure of a Participating DFI to provide NACHA with proof of completion of its own, or its Third-Party Service Provider's or Third-Party Sender's, audit when requested to do so may be considered a Class 2 rule violation and is subject to potential rules enforcement proceedings.

ODFI AUDIT REQUIREMENTS

Each ODFI, and any Third-Party Service Provider (including any Third-Party Service Provider acting in the role of a Third-Party Sender) that has agreed with an ODFI or another Third-Party Sender to process entries and perform a function of ACH processing or a requirement of the *Rules* that is otherwise applicable to an ODFI, must perform an annual audit to determine compliance with all provisions of the *NACHA Operating Rules*. While not exhaustive or exclusive, NACHA strongly recommends that ODFIs (and Third-Party Service Providers/Third-Party Senders performing functions of ACH processing on behalf of ODFIs) examine the following rule provisions as part of their ACH-related audits.

Verification of Originator/Third-Party Sender Identity

- Does the ODFI utilize a commercially reasonable method to verify the identity of the Originator or Third-Party Sender that enters into an Origination Agreement with the ODFI?
- When an ODFI has a relationship with a Third-Party Sender rather than with an Originator directly, does that Third-Party Sender utilize a commercially reasonable method to verify the identity of each Originator or other Third-Party Sender that enters into an Origination Agreement with the Third-Party Sender?

References: Article Two, Subsection 2.2.1–Verification of Originator or Third-Party Sender Identity

Origination Agreements

- Has the ODFI entered into an Origination Agreement with the Originator or Third-Party Sender:
 - that binds the Originator or Third-Party Sender to the *Rules*?
 - that authorizes the ODFI to originate entries on behalf of the Originator or Third-Party Sender?
 - within which the Originator or Third-Party Sender acknowledges that Entries may not be initiated that violate the laws of the United States?
 - that includes any restrictions on types of Entries that may be originated?
 - that includes requirements for the Third-Party to have entered into an agreement with an Originator or other Third-Party Sender, and that such an agreement includes the right of the ODFI to terminate or suspend the agreement for breach of the *Rules*, and the right of the ODFI to audit the Originator's, the Third-Party Sender's, and the Third-Party Sender's Originators' compliance with the Origination Agreement and the *Rules*?
 - that, with respect to IAT Entries, contains all necessary provisions, to include but not limited to (a) the terms and conditions for the allocation of gains, losses, and the assumption of risk for foreign exchange conversion; (b) the rights and responsibilities of the ODFI in the event of an Erroneous Entry; and (c) compliance with foreign laws or payment system rules regarding authorization?

References: Article Two, Subsection 2.2.2.1 – ODFI Must Enter Origination Agreement with Originator, Subsection 2.2.2.2 – ODFI Must Enter Origination Agreement with Third-Party Sender, and Subsection 2.5.8.3 – Origination Agreements for IAT Entries

Sending Point Agreements

- Has the ODFI entered into an agreement with a Sending Point that transmits entries on the ODFI's behalf to an ACH Operator?

Reference: Article Two, Subsection 2.2.2.3 – ODFI Agreement with Sending Points

ODFI Risk Management

- Does the ODFI:
 - perform due diligence with respect to an Originator or Third-Party Sender to believe it has the capacity to perform its obligations in conformance with the *NACHA Operating Rules*?
 - assess the risks of the Originator's or Third-Party Sender's ACH activity; establish, implement, and periodically review an exposure limit for the Originator or Third- Party Sender?
 - establish and implement procedures to monitor the Originator's or Third-Party Sender's origination and return activity across multiple Settlement Dates?

- enforce restrictions on the types of Entries that may be originated?
- enforce the exposure limit?
- obtain approval of Direct Access Debit Participants, if applicable, from the ODFI’s board of directors, committee of the board of directors, or its designee?

Reference: Article Two, Subsection 2.2.3 – ODFI Risk Management, Subsection 2.2.4 – ODFI Board Approval of Direct Access Debit Participant

Prenotifications

- Does the ODFI:
 - transmit Prenotification Entries in accordance with the requirements of the *Rules*?
 - ensure that live entries are not initiated when a prenotification is returned?

Reference: Article Two, Subsection 2.6 – Prenotification Entries

Return Processing

- Does the ODFI:
 - accept Return Entries and Extended Return Entries that comply with the *Rules* and that are transmitted by the RDFI within the time limits established by the *Rules*?
 - transmit dishonored Return Entries within five Banking Days after the Settlement Date of the Return Entry?
 - accept contested dishonored Return Entries, as required by the *Rules*?
 - use Return Reason Codes in an appropriate manner?

Reference: Article Two, Subsection 2.12.1 – ODFI Acceptance of Timely Return Entries and Extended Return Entries, Subsection 2.12.5.1 – Dishonor of Return by ODFI, and Subsection 2.12.5.3 – ODFI Must Accept a Contested Dishonored Return Entry; Appendix Four

Return Fee Entries

- Does the ODFI transmit Return Fee Entries in accordance with the requirements of the *Rules*?

Reference: Article Two, Subsection 2.14 – Return Fee Entries

Reinitiation of Returned Entries

- Does the ODFI transmit Reinitiated Entries in accordance with the requirements of the *Rules*?

Reference: Article Two, Subsection 2.12.4 – Reinitiation of Returned Entries

Notifications of Change

- Does the ODFI:
 - provide information relating to NOCs and Corrected NOCs to the Originator or Third-Party Sender within two Banking Days of the Settlement Date of the NOC or Corrected NOC in accordance with the *Rules*, Appendix Five (Notification of Change)?
 - provide information relating to NOCs and Corrected NOCs for CIE and credit WEB entries to any Third-Party Service Provider initiating such entries on behalf of the consumer Originator?

- transmit refused NOCs within 15 days of receipt of an NOC or corrected NOC?

Reference: Article Two, Subsection 2.11.1 – ODFI and Originator Action on Notification of Change (NOC) and Subsection 2.11.2 – ODFI Right to Refuse Notification of Change Entries

Proof of Authorization

- Does the ODFI:
 - provide to the RDFI, upon receipt of the RDFI’s written request, the original, a copy, or other accurate Record of the Receiver’s authorization with respect to a Consumer Account within ten Banking Days of receipt of the request without charge? (Note: For entries other than XCK entries)
 - provide to the RDFI, upon receipt of the RDFI’s written request, an accurate record evidencing the Receiver’s authorization, or the contact information for the Originator (that at a minimum, includes (a) the Originator’s name and (b) the Originator’s phone number or email address) within ten Banking Days of receipt of the request without charge)? (Note: for CCD, CTX, or Inbound IAT entries to a Non- Consumer Account)

Reference: Article Two, Subsection 2.3.2.5 – Retention and Provision of the Record of Authorization; Subsection 2.5.18.6 – Rules Exceptions for XCK entries; and Article Two, Subsection 2.3.3.3 – Provision of the Record of Authorization

Copies of Source Documents (ARC and BOC Entries)

- Does the ODFI:
 - provide a copy of the front of the Receiver’s Eligible Source Document used to initiate the ARC Entry within ten Banking Days upon receiving written request from the RDFI, provided such request is received within two years of the Settlement Date of the ARC Entry?
 - provide a copy of the front of the Receiver’s Eligible Source Document used to initiate the BOC Entry within ten Banking Days upon receiving written request from the RDFI, provided such request is received within two years of the Settlement Date of the BOC Entry?

Reference: Article Two, Subsection 2.5.1.5 – Additional ODFI Warranties for ARC Entries, and Article Two, Subsection 2.5.2.5 – Additional ODFI Warranties for BOC Entries

BOC Entries – Identification of Originators and Third-Party Senders

- Does the ODFI (1) establish and implement commercially reasonable procedures to verify the identity of the Originator or Third-Party Sender of such entries; and (2) establish and implement procedures to document specific information with respect to the Originator, as required by the *Rules*, and, upon request, provide such information to the RDFI within the required time frame?

Reference: Article Two, Subsection 2.5.2.5 – Additional ODFI Warranties for BOC Entries

UCC4A

- Does the ODFI provide the Originator with proper notice to ensure compliance with UCC Article 4A with respect to ACH transactions for non-consumer entries?

Reference: Article Two, Subsection 2.3.3.2 – Notice by ODFI to Originator for Non-Consumer Credit Entries

Reversals

- Does the ODFI transmit Reversing Files and Reversing Entries in accordance with the requirements of the *Rules*?

Reference: Article Two, Section 2.8 – Reversing Files and Section 2.9 – Reversing Entries

Periodic Statements

- Does the ODFI provide or make available to the Originator all required information with respect to the Consumer Account of the Originator of a CIE Entry or a credit WEB Entry?

Reference: Article Two, Subsection 2.5.4.2 – ODFI to Satisfy Periodic Statement Requirement for CIE Entries, Subsection 2.5.17.6 – ODFI to Satisfy Periodic Statement Requirement for Credit WEB Entries

Return Rate Reporting

- Does the ODFI report Return Rate information on an Originator or Third-Party Sender, when requested to do so by NACHA?

Reference: Article Two, Subsection 2.17.2 – ODFI Return Rate Reporting

Direct Access

- Has the ODFI (1) registered its Direct Access status with NACHA; (2) provided required statistical reporting for a Direct Access Debit Participant; and (3) notified NACHA of any change to the information previously provided with respect to a Direct Access Debit Participant?

Reference: Article Two, Subsection 2.17.1 – Direct Access Registration

Third-Party Sender Registration

- Has the ODFI (1) registered its Third-Party Senders with NACHA, and updated, as necessary, any such registrations; or (2) stated to NACHA that it has no Third-Party Senders?

Reference: Article Two, Subsection 2.17.3 – Third-Party Sender Registration

RDFI AUDIT REQUIREMENTS AND RULES COMPLIANCE

Each RDFI, and any Third-Party Service Provider that has agreed with an RDFI to process entries and perform a function of ACH processing or a requirement of the *Rules* otherwise applicable to an RDFI, is required to perform an annual audit to determine compliance with the rules regarding the receipt of ACH entries. NACHA strongly recommends RDFIs (and Third-Party Service Providers performing functions of ACH processing on behalf of RDFIs) examine the following rule provisions as part of their ACH-related audits.

Acceptance and Handling of Entries

- Does the RDFI accept all types of entries that comply with the *Rules* and that are received with respect to an account maintained with the RDFI, subject to the RDFI's right of return?

Reference: Article Three, Subsection 3.1.1 – RDFI Must Accept Entries

Verification of Account Numbers in Prenotifications

- Does the RDFI verify that the account number contained in a Prenotification Entry is for a valid account? If the Prenotification does not contain a valid account number, or is otherwise erroneous or unprocessable, does the RDFI transmit either (a) a Return Entry, or (b) a Notification of Change?

Reference: Article Three, Section 3.5 – Specific Provisions for Prenotifications

Posting of Entries and Funds Availability

- Does the RDFI:
 - make the amount of credit entries received from its ACH Operator available to Receivers as required by the *Rules*, subject to the RDFI’s right of return?
 - post debit entries no earlier than the Settlement Date, regardless of the Effective Entry Dates of the entries?

Reference: Article Three, Subsection 3.3.1 – Availability of Credit Entries to Receivers and Subsection 3.3.2 – Timing of Debit Entries

RDFI Obligation to Provide Entry Information to Receivers

- Does the RDFI:
 - provide or make available to the consumer Receiver required information concerning credit and debit entries to the Receiver’s Consumer Account?
 - provide or make available to the non-consumer Receiver the contents of the Check Serial Number Field for ARC, BOC, and POP entries to the Receiver’s Non-Consumer Account?

Reference: Article Three, Subsection 3.1.5.1– RDFI Must Provide Entry Information for Consumer Accounts and Subsection 3.1.5.2 – RDFI Must Provide Entry Information to Receivers of ARC, BOC, or POP Entries to Non-Consumer Accounts

Return Processing

- Does the RDFI:
 - transmit Return entries (except RCK) to its ACH Operator by the ACH Operator’s deposit deadline for the Return entries to be made available to the ODFI no later than the opening of business on the second Banking Day following the Settlement Date of the original entry, except as otherwise provided in the *Rules*?
 - transmit RCK entries to the RDFI’s ACH Operator by midnight of the RDFI’s second Banking Day following the Banking Day of the receipt of the RCK Entry?
 - transmit Extended Return entries to its ACH Operator by its deposit deadline for the Extended Return Entry to be made available to the ODFI no later than the opening of business on the Banking Day following the sixtieth calendar day following the Settlement Date of the original entry?

Reference: Article Three, Section 3.8 – RDFI’s Right to Transmit Return Entries and Subsection 3.8.3.3 – Timing Requirements for Return of RCK Entries; Subsection 3.13.1 – RDFI May Transmit Extended Return Entries; Appendix Four

- Does the RDFI return any credit entry that has been declined by a Receiver by transmitting a Return Entry to its ACH Operator by the ACH Operator’s deposit deadline for the Return Entry to be made

available to the ODFI no later than the opening of business on the second Banking Day following the RDFI's receipt of notification from the Receiver?

Reference: Article Three, Subsection 3.8.3.2 – Timing Requirements for Credit Entries Refused by Receiver

- Does the RDFI return any credit entry that is not credited or otherwise made available to its Receiver's account by transmitting a Return Entry to its ACH Operator by the ACH Operator's deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the second Banking Day following the Settlement Date of the original entry?

Reference: Article Three, Subsection 3.8.4 – RDFI Must Return Unposted Credit Entries

- Does the RDFI obtain agreement of the ODFI prior to transmitting late Returns of CCD or CTX entries and ensure that such entries utilize the appropriate Return Reason Code?

Reference: Article Three, Subsection 3.8.3.5 – Late Return Entries for CCD or CTX Entries with ODFI Agreement; Appendix Four

- Does the RDFI handle dishonored Return entries received by the RDFI appropriately, and are contested dishonored Return entries and corrected Return entries initiated in a timely manner?

Reference: Article Three, Subsection 3.8.5 – Receipt of Dishonored Returns; Appendix Four

Stop Payments

- Does the RDFI:
 - honor stop payment orders provided by Receivers, either verbally or in writing, to the RDFI at least three Banking Days before the scheduled date of any debit entry to a Consumer Account (for entries other than single entries)?
 - honor stop payment orders provided by Receivers to the RDFI at such time and in such manner as to allow the RDFI a reasonable opportunity to act upon the order prior to acting on any debit entry to a Non-Consumer Account, or an ARC, BOC, POP, or RCK Entry, or a single entry IAT, PPD, TEL, or WEB Entry to a Consumer Account?

Reference: Article Three, Subsection 3.7.1.1 – RDFI Obligation to Stop Payment of Recurring Entries, Subsection 3.7.1.2 – RDFI Obligation to Stop Payment of Single Entries and Subsection 3.7.2 – RDFI Obligation to Stop Payment of Entries to Non-Consumer Accounts

- Does the RDFI:
 - use Return Reason Codes R38 (Stop Payment on Source Document) and R52 (Stop Payment on Item Related to RCK Entry) properly?
 - for each ARC, BOC, or RCK Entry for which a stop payment order was in force with respect to (a) the Check that was used as an Eligible Source Document for the ARC or BOC Entry, or (b) the item to which the RCK Entry relates, transmit the Extended Return Entry to the RDFI's ACH Operator by its deposit deadline for the Extended Return Entry to be made available to the ODFI no later than the opening of business on the Banking Day following the sixtieth calendar day following the Settlement Date of the original entry? (NOTE: No Written Statement of Unauthorized Debit is required for entries returned for these reasons.)

Reference: Article Three, Subsection 3.11.2.2 – RDFI Obligation to Recredit for ARC, BOC, and RCK Entries Regarding Stop Payment Orders and Subsection 3.13.1 – RDFI May Transmit Extended Return Entries; Appendix Four

Written Statements of Unauthorized Debits

- Does the RDFI:
 - obtain Written Statements of Unauthorized Debit from consumers for Returns bearing Return Reason Codes R05, R07, R10, R37, R51, and R53?
 - provide copies of Written Statements of Unauthorized Debits to ODFIs within the required time frame, when such copies are requested in writing by ODFIs?

Reference: Article Three, Subsection 3.11.1 – RDFI General Obligation to Recredit Consumer Accounts, Subsection 3.12.5 – RDFI Must Accept Written Statement of Unauthorized Debit, Subsection 3.12.7 – Copy of Written Statement of Unauthorized Debit

Notifications of Change

- Does the RDFI initiate a Notification of Change within two banking days of the Settlement Date of the entry to which the Notification of Change relates, with the exception of a Notification of Change due to merger, acquisition, or other similar event?

Reference: Article Three, Subsection 3.9.1 – General Rule for Notification of Change (COR Entry)

UCC4A

- Does the RDFI provide Receivers with proper notice to ensure compliance with UCC Article 4A with respect to ACH credit transactions?

Reference: Article Three, Subsection 3.1.6 – RDFI Must Provide Certain Notices to the Receiver for Credit Entries Subject to Article 4A

Payment Related Information

- Does the RDFI:
 - provide information contained within the Payment-Related Information field of Addenda Records transmitted with CCD, CTX, CIE, and IAT Entries, when requested to do so by a Non-Consumer Receiver?
 - provide this information by the opening of business on the RDFI's second Banking Day following the Settlement Date of the entry?

Reference: Article Three, Subsection 3.1.5.3 – RDFI Must Provide Payment-Related Information to Receivers of CCD, CTX, CIE, and IAT Entries to Non-Consumer Accounts

THIRD-PARTY SERVICE PROVIDER AND THIRD-PARTY SENDER AUDIT REQUIREMENTS

Third-Parties and Origination

To the extent that a Third-Party Service Provider (including a Third-Party Service Provider that acts in the role of a Third-Party Sender) agrees with an ODFI, or with another Third-Party Sender, to process entries and perform a function of ACH processing or a requirement of the *Rules* that is otherwise applicable to an ODFI, that Third-Party Service Provider/Third-Party Sender is required to audit its compliance with the *Rules* as if it were the ODFI.

Each Third-Party Service Provider or Third-Party Sender should review its business model and agreement with the financial institution or other Third-Party Sender for which it provides ACH services, and identify the specific ODFI functions it performs or ODFI responsibilities it has assumed and audit accordingly. For purposes of this Audit chapter, the Third-Party Service Provider/Third-Party Sender may refer to the respective sections on ODFIs for guidance on issues that may fall within the scope of its rules compliance audit.

Third-Parties and Receipt

Similarly, to the extent that a Third-Party Service Provider has agreed with an RDFI to process entries and perform a function of ACH processing or a requirement of the *Rules* otherwise applicable to an RDFI, the Third-Party is required to audit its compliance with the rules governing RDFIs as if it were the RDFI. These Third-Parties should refer to the discussion on RDFI audits with this chapter for guidance on issues that may require examination in a Third-Party Service Provider audit.

Each Third-Party Service Provider should review its business model and agreement with the RDFI for which it provides ACH services, and identify the specific RDFI functions it performs or RDFI responsibilities it has assumed and audit accordingly. For purposes of this Audit chapter, the Third-Party Service Provider may refer to the respective sections on RDFIs for guidance on issues that may fall within the scope of its rules compliance audit.

OTHER CONSIDERATIONS FOR ALL PARTICIPATING DFIs

Although the scope of the annual audit is specific only to an examination of compliance with the *NACHA Operating Rules*, sound business practice dictates a review of a financial institution's or Third-Party's compliance with all rules, regulations, and requirements that impact ACH processing. Participating DFIs (and Third-Parties acting on behalf of those DFIs) may also wish to consider a review of their compliance with the rules and regulations listed below.

- 31 Code of Federal Regulations 210
- The Green Book
- Federal Reserve Board's Regulations DD, D, and CC
- Consumer Finance Protection Bureau's Regulation E
- ACH Operations Policies and Procedures
- Regulatory agency bulletins, such as OCC 2006-39, and the FFIEC IT Handbook for Retail Payments
- BSA/AML requirements
- Data security policies & processing contingency plans
- State EFT regulations
- Federal Reserve ACH Operating Circular 4
- Uniform Commercial Code 4A
- Office of Foreign Assets Control (OFAC)

As ACH participants, consider the following as sound business practices to help ensure *Rules* compliance:

- Obtain all available resources, such as rules, regulations, guidelines, etc. Keep them up to date.
- Develop a list of contacts to use as needed. Make their addresses and telephone numbers available to those that need them.
- Ensure ACH software is up to date.

- Periodically review authentication techniques to ensure that security measures are adequate.
- Consult appropriate resources for establishing proper security and control procedures.
- Respond to all Reports of Possible ACH Rules Violation received by correcting or refuting the alleged rules violation within the prescribed time period.

For ODFIs:

- Does the ODFI keep Originators and Third-Party Senders informed of their responsibilities under the *Rules*?
- Has the ODFI established priorities and processing schedules for the Originator or Third-Party Sender?
- Has the ODFI checked holiday schedules? Does the Originator or Third-Party Sender check these schedules?
- Does the ODFI periodically review ACH Origination Agreements and service specifications for Originators and Third-Party Senders?
- Has the ODFI established an ACH operational control group?
- Has the ODFI assigned responsibility and accountability for:
 - verifying authenticity of files?
 - reviewing controls and checks?
 - balancing controls?
 - ensuring prompt, accurate processing?
 - researching inquiries, errors?
- Has the ODFI developed backup/contingency plans?
- Has the ODFI verified that the formats and structure of ACH files meet formatting criteria and edits?
- Does the ODFI accept permissible return entries when it has agreed to do so?

For RDFIs:

- Has the RDFI established priorities/schedules for handling ACH transactions?
- Has the RDFI established an ACH operational control group?
- Has the RDFI developed backup/contingency plans?

For Third-Party Service Providers:

- When the Third-Party Service Provider acts as the ODFI's sending point, has the Third-Party Service Provider entered into an agreement with the ODFI to transmit entries to the ACH Operator on the ODFI's behalf?
- Does an agreement with the ODFI address all functions the Third-Party Service Provider will perform on behalf of the ODFI?

- When the Third-Party Service Provider acts as the RDFI's receiving point, has the Third-Party Service Provider entered into an agreement with the RDFI to receive entries from the ACH Operator on the RDFI's behalf?
- Does an agreement with the RDFI address all functions the Third-Party Service Provider will perform on behalf of the RDFI?
- Has the Third-Party Service Provider reviewed the ODFI and RDFI audit requirements for any functions it performs on behalf of the ODFI or RDFI?
- Has the Third-Party Service Provider developed backup/contingency plans?

For Third-Party Senders:

- Has the Third-Party Sender entered into an Origination Agreement with the ODFI?
- Does an agreement with the ODFI address all functions the Third-Party Sender will perform on behalf of its Originators or other Third-Party Senders?
- Has the Third-Party Sender agreed to assume the responsibilities of an Originator under the *NACHA Operating Rules*?
- Has the Third-Party Sender identified to the ODFI any other Third-Party Sender prior to transmitting entries for that Third-Party Sender?
- Has the Third-Party Sender provided the ODFI, upon its request, information that the ODFI reasonably deems necessary to identify each Originator or other Third-Party Sender for which it transmits entries?
- Has the Third-Party Sender provided, upon the ODFI's request, information for the purpose of the ODFI's registration of the Third-Party Sender with NACHA? Was this information provided within two banking days of the receipt of the ODFI's request?
- Has the Third-Party Sender reviewed the ODFI audit requirements for any function it performs on behalf of the ODFI?
- Has the Third-Party Sender developed backup/contingency plans?



NOTICE OF AMENDMENT
TO THE
2019 NACHA OPERATING RULES

May 24, 2019
SUPPLEMENT #2-2019

Differentiating Unauthorized Return Reasons

Effective Dates: Phase 1 - April 1, 2020

Phase 2 - April 1, 2021

Supplement #2-2019 to the *NACHA Operating Rules*

On April 12, 2019, the Nacha Voting Membership approved an amendment to the *NACHA Operating Rules (Rules)* on Differentiating Unauthorized Return Reasons. The effective dates for this rule change are April 1, 2020 and April 1, 2021.

The Differentiating Unauthorized Return Reasons Rule (Rule) is designed to better distinguish among types of unauthorized return reasons for consumer debits. This differentiation will give ODFIs and their Originators clearer and better information when a customer claims that an error occurred with an authorized payment, as opposed to when a customer claims there was no authorization for a payment. ODFIs and their Originators will be able to react differently to claims of errors, and potentially could avoid taking more significant action with respect to such claims. The Rule will also allow collection of better industry data on unauthorized activity.

In addition, language within the *Rules* regarding Written Statements of Unauthorized Debits will be modified to accommodate the newly defined return reason, but there will be no additional substantive changes to the WSUD rules.

This supplement provides ACH Network participants with a summary of the key components of each change, along with details regarding the technical changes to *Rules* language. To ensure compliance with the most current rules, this Supplement should be used in conjunction with the 2019 edition of the *Rules*.

Differentiating Unauthorized Return Reasons

SUMMARY

Currently, Return Reason Code R10 is a catch-all for various types of underlying return reasons, including some for which a valid authorization exists, such as a debit on the wrong date or for the wrong amount. In these situations, there is an actual relationship and payment authorization between the Originator and its customer (the Receiver), but the Originator made an error regarding the payment. For these cases, a return of the debit still should be made, but the Originator and the Receiver might both benefit from a correction of the error rather than more significant action such as the termination of the origination authorization.

Under the Rule, Return Reason Code R11 will be re-purposed to be used for the return of a debit in which there is an error, but for which there is an authorization. The re-purposed description will be “Customer Advises Entry Not In Accordance with the Terms of the Authorization.” Return Reason Code R10 will continue to be used when a consumer claims he or she does not know the Originator, does not have a relationship with the Originator, or did not give authorization for the entry. The description will be “Customer Advises Originator is Not Known to Receiver and/or Is Not Authorized by Receiver to Debit Receiver’s Account”

R11 returns will have the same processing requirements and characteristics as R10 returns, and are still considered unauthorized under the *Rules*.

- Incorrect EFTs are subject to the same error resolution procedures under Regulation E as unauthorized EFTs.
- The RDFI will be required to obtain the Receiver’s Written Statement of Unauthorized Debit.
- The return timeframe will be 60 days.
- R11 returns will be included within the definition and calculation of the Unauthorized Entry Return Rate.
- R11 returns will be covered by the existing Unauthorized Entry Fee. (see Effective Date section)
- The new definition and use of R11 does not include disputes about goods and services, just as with the current definition and use of R10.

A key difference between R10 and R11 will be that an Originator will be permitted to correct the underlying error of an R11 return, if possible, and submit a new Entry without being required to obtain a new authorization. The new Entry must be originated within 60 days of the Settlement Date of the R11 Return Entry. In addition, any new Entry for which the underlying error is corrected is subject to the same ODFI warranties and indemnification made in Section 2.4 (e.g., the ODFI warrants that the corrected new Entry is in accordance with the terms of the authorization, it is timely, contains the correct amount, etc.).

Examples of correctable errors include a debit originated for settlement earlier than authorized; a debit for the wrong amount; a debit as part of an Incomplete Transaction; and some types of an improperly reinitiated Entry. Once the Originator has corrected the underlying issue, the Originator will be able to submit a new Entry. Some errors, however, cannot be corrected. Examples of uncorrectable errors include the Originator did not provide the required notice for ARC, BOC, or POP entries prior to accepting the check, or the notice did not conform to the requirements of the *Rules*; or the source document for an ARC, BOC or POP Entry was ineligible for conversion. In these cases, the Originator will not be able to submit a new Entry.

IMPACT TO PARTICIPANTS

Originators: Originators will need to be aware of the differences between returns bearing the R10 and R11 Return Reason Codes and modify their procedures accordingly.

ODFIs: ODFIs will need to educate their staff and Originators on the changes to Return Reason Codes R10 and R11. ODFIs will need to update their systems to accommodate the re-purposing of R11, including modifications to return reporting and tracking capabilities.

Third-Party Service Providers and Third-Party Senders: These ACH participants will need to educate their staff and Originators on the changes to Return Reason Codes R10 and R11. When necessary, these Third-Parties will need to update their systems to accommodate the re-purposing of R11, including modifications to return reporting and tracking capabilities.

ACH Operators: ACH Operators will need to update their systems to accommodate the re-purposed R11, including ODFI Return Rate Reporting and application of Unauthorized Entry Fees.

RDFIs: RDFIs will need to educate their staff on the proper use of the Return Reason Codes, as well as update their systems to change the R11 return time frame to the 60 day window. RDFIs may also wish to review the format of their Written Statements of Unauthorized Debit to determine if any revisions are appropriate to facilitate updated use of these return codes.

EFFECTIVE DATE

The Rule will become effective in two phases. On April 1, 2020, the re-purposed return code will become effective, and financial institutions are to use it for its new purpose. Other provisions in the *Rules* that apply to unauthorized returns will become effective at this time with respect to R11s – i.e., Unauthorized Entry Return Rate and its relationship to ODFI Return Rate Reporting obligations.

A year later, on April 1, 2021, the re-purposed return code will become covered by the existing Unauthorized Entry Fee. This part of the Rule will be implemented by the ACH Operators, and as with the current fee, will be billed/credited on their monthly statements of charges.

TECHNICAL SUMMARY

Below is a summary of the impact of the Differentiating Unauthorized Return Reasons Rule on the *NACHA Operating Rules*. Sections of the *Rules* that are affected by this amendment are included and reflect rule language as it will read upon implementation in highlighted, italicized text.

- *Article One, Subsection 1.11.1 (General Rule on Unauthorized Entry Fee)* – updated to include Return Reason Code R11.¹
- *Article Two, Subsection 2.12.4.1 (General Rule for Reinitiated Entries)* – modified to treat new corrected Entry differently from a Reinitiated Entry.
- *Article Two, Subsection 2.12.5 (Correction of Entries Returned as R11 – Customer Advises Entry Not in Accordance with the Terms of the Authorization)* – new subsection added to permit submission of corrected Entry and prohibit submission of uncorrectable Entry.
- *Article Three, Section 3.11 (RDFI Obligation to Recredit Receiver)* – updated structure to align with broader concepts of unauthorized Entries and authorized Entries that are not in accordance with the

¹Effective April 1, 2021

authorization.

- *Article Three, Section 3.12 (Written Statement of Unauthorized Debit)* - updated structure to align with broader concepts of unauthorized Entries and authorized Entries that are not in accordance with the authorization.
- *Article Three, Subsection 3.12.1 (Unauthorized Debit Entry/Authorization for Debit Has Been Revoked)* - updated structure to align with broader concepts of unauthorized Entries (including authorization revoked) and authorized Entries that are not in accordance with the authorization.
- *Article Three, Subsection 3.12.2 (Debit Entry not in Accordance with the Terms of the Authorization)* – revised to describe conditions in which R11 would be used.
- *Article Three, Subsection 3.12.2.1 (Improper ARC, BOC and POP Debit Entries)* – minor modification to limit discussion of this subsection to ARC, BOC and POP Entries.
- *Article Three, Subsection 3.12.3 (Improperly Originated RCK Entry)* – minor modification to limit discussion of this subsection to RCK Entries.
- *Article Three, Subsection 3.12.4 (Form of Written Statement of Unauthorized Debit)* – modified to eliminate redundancy with new and revised text.
- *Article Three, Subsection 3.12.6 (Copy of Written Statement of Unauthorized Debit)* – updated to note that the ODFI must request a copy of the Written Statement of Unauthorized Debit within one year of the Settlement Date of the Extended Return Entry.
- *Article Eight, Section 8.111 (Unauthorized Entry Fee)* – updated to include R11.²
- *Article Eight, Section 8.112 (Unauthorized Entry Fee Return Rate)* – updated to include R11.
- *Article Eight, Section 8.117 (Written Statement of Unauthorized Debit)* - updated structure to align with broader concepts of unauthorized Entries (including authorization revoked) and authorized Entries that are not in accordance with the authorization.
- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements): Addenda Information* – modified to strike reference to R11.
- *Appendix Four – Return Entries (Introduction)* – modified to strike reference to R11.
- *Appendix Four, Subpart 4.2 (Table of Return Reason Codes)* – updated to include revised titles and descriptions for R10 and R11.

As approved April 12, 2019, effective April 1, 2020 and April 1, 2021, the Rules will be amended as follows for changes related to Differentiating Unauthorized Return Reasons:

²Effective April 1, 2021

ARTICLE ONE

General Rules

SECTION 1.11 Unauthorized Entry Fee***SUBSECTION 1.11.1 General Rule on Unauthorized Entry Fee***

An ODFI agrees to pay an Unauthorized Entry Fee to the respective RDFI for a debit Entry (except for a debit IAT Entry) that is Returned to the ODFI with a Return Reason Code of R05, R07, R10, R29, or R51.

An ODFI agrees to pay an Unauthorized Entry Fee to the respective RDFI for a debit Entry (except for a debit IAT Entry) that is Returned to the ODFI with a Return Reason Code of R05, R07, R10, R11³, R29, or R51.

The National Association, in coordination with the ACH Operators, will arrange for a system for the collection and distribution of Unauthorized Entry Fees from and to the Federal Reserve accounts that Participating DFIs use for settlement of their ACH activities.

ARTICLE TWO

Rights and Responsibilities of ODFIs, Their Originators, and Third-Party Senders

SECTION 2.12 Return Entries***SUBSECTION 2.12.4 Reinitiation of Returned Entries******SUBSECTION 2.12.4.1 General Rule for Reinitiated Entries***

An Originator or ODFI may Reinitiate an Entry, other than an RCK Entry, that was previously returned, only if:

- (a) the Entry was returned for insufficient or uncollected funds;
- (b) the Entry was Returned for stopped payment and Reinitiation has been separately authorized by the Receiver after the Originator or ODFI receives the Return Entry; or
- (c) the Originator or ODFI has taken corrective action to remedy the reason for the return.

The Originator or ODFI must Reinitiate the Entry within 180 days after the Settlement Date of the original Entry. An Originator or ODFI may Reinitiate an Entry that has been returned for insufficient or uncollected funds a maximum of two times following the Return of the original Entry.

An Originator or ODFI may Reinitiate an RCK Entry that was previously returned if:

- (d) the RCK Entry has been returned for insufficient or uncollected funds; and
- (e) the item to which the RCK Entry relates has been presented no more than one time through the check collection system (as a Check, substitute check, or image) and no more than one time as an RCK Entry.

³Effective April 1, 2021

A debit Entry will not be treated as a Reinitiated Entry if:

- (f) the debit Entry is one in a series of preauthorized, recurring debit Entries and is not contingent upon whether an earlier debit Entry in the recurring series has been Returned; or,
- (g) the Originator obtains a new authorization for the debit Entry after it receives the original Return Entry; or,
- (h) the debit Entry is initiated to the Receiver's correct account following the return of a previous Entry using Return Reason Code R03 (No Account/Unable to Locate Account) or R04 (Invalid Account Number Structure); or
- (i) *the debit Entry is initiated to the Receiver's account following the return of a previous Entry using Return Reason Code R11 (Customer Advises Entry Not in Accordance with the Terms of the Authorization), and the error or defect in the previous Entry has been corrected to conform to the terms of the original authorization, in accordance with the requirements of Subsection 2.12.5 (Correction of Entries Returned as R11).*

SUBSECTION 2.12.5 Correction of Entries Returned as R11 (Customer Advises Entry Not in Accordance with the Terms of the Authorization) (new subsection)

An Originator that has received a Return Entry using Return Reason Code R11 (Customer Advises Entry Not in Accordance with the Terms of the Authorization) may correct, if possible, the error or defect in the original Entry and Transmit a new Entry that conforms to the terms of the original authorization, without the need for re-authorization by the Receiver. The Originator must Transmit the new Entry within 60 days after the Settlement Date of the Return Entry.

The following errors causing the return of the original Entry as R11 cannot be corrected by the Originator, and transmission of a new Entry in these cases is prohibited:

- (a) *the Originator did not provide the required notice for an ARC, BOC, or POP Entry prior to accepting the check, or the notice did not conform to the requirements of these rules; or*
- (b) *the source document for an ARC, BOC, or POP Entry was ineligible for conversion.*

ARTICLE THREE

Rights and Responsibilities of RDFIs and Their Receivers

SECTION 3.11 RDFI Obligation to Recredit Receiver

An RDFI must recredit the accountholder to the extent provided in this Section 3.11 for (a) a debit Entry to a Consumer Account and any IAT debit Entry to a Non-Consumer Account that was, in whole or in part, not properly authorized under these Rules, as required by these Rules, applicable Legal

Requirements, or agreement between the RDFI and the account holder; (b) an Incomplete Transaction to a Consumer Account or an Incomplete Transaction involving an ARC, BOC, or POP Entry to any Receiver's account; (c) an improperly originated ARC, BOC, POP, or RCK Entry to any Receiver's account; and (d) an improperly Reinitiated Entry to a Consumer Account (as provided within Subsection 3.12.4 (Improperly Reinitiated Debit Entries)). This recredit requirement does not apply if the accountholder is a Receiver that has waived any right to recredit in accordance with the requirements of Subsection 3.11.4 (Receiver's Waiver of RDFI's Recredit Obligation).

An RDFI must recredit the accountholder to the extent provided in this Section 3.11 for (a) a debit Entry to a Consumer Account and any IAT debit Entry to a Non-Consumer Account that was, in whole or in part, not properly authorized under these Rules, or was one for which authorization was revoked, as required by these Rules, applicable Legal Requirements, or agreement between the RDFI and the account holder; (b) a debit Entry to a Consumer Account, or an ARC, BOC, or POP Entry to any Receiver's account, that was not originated in accordance with the terms of the authorization, as defined in Subsection 3.12.2 (Debit Entry Not in Accordance with the Terms of the Authorization); or (c) an improperly-originated RCK Entry. This recredit requirement does not apply if the accountholder is a Receiver that has waived any right to recredit in accordance with the requirements of Subsection 3.11.4 (Receiver's Waiver of RDFI's Recredit Obligation).

SECTION 3.12 Written Statement of Unauthorized Debit (this section will be revised and replaced in its entirety)

SUBSECTION 3.12.1 Unauthorized Debit Entry

For purposes of this Section 3.12, a debit Entry was not authorized by the Receiver if:

- (a) the authorization requirements of Section 2.3 (Authorization and Notice of Entries) were not met;
- (b) the debit Entry was initiated in an amount different than that authorized by the Receiver; or
- (c) the debit Entry was initiated for settlement earlier than authorized by the Receiver.

An unauthorized debit Entry does not include a debit Entry initiated with fraudulent intent by the Receiver or any Person acting in concert with the Receiver.

SUBSECTION 3.12.2 Improper ARC, BOC, POP, and RCK Debit Entries

For purposes of this Section 3.12, a debit Entry was improper if it was:

- (a) an ARC, BOC, or POP Entry for which:
 - (i) the source document used for the Entry was not an Eligible Source Document; or
 - (ii) the Check that was used as a source document for the Entry was paid by the RDFI;
- (b) an ARC or BOC Entry for which:
 - (i) notice was not provided by the Originator in accordance with Subsection 2.5.1.2 (Authorization of ARC Entries by Notification) or Subsection 2.5.2.2 (Authorization of BOC Entries by Notification), as applicable; or

- (ii) the amount of the Entry was not accurately obtained from the Eligible Source Document;
- (c) an RCK Entry for which:
 - (i) notice stating the terms of the RCK Entry policy was not provided by the Originator in accordance with Subsection 2.5.13.2 (Authorization of RCK Entries by Notification);
 - (ii) the item to which the RCK Entry relates is not an eligible item;
 - (iii) all signatures on the item to which the RCK Entry relates are not authorized or authentic;
 - (iv) the item to which the RCK Entry relates has been altered;
 - (v) the amount of the RCK Entry was not accurately obtained from the item; or
 - (vi) both the RCK Entry and the item to which the RCK Entry relates have been paid.

SUBSECTION 3.12.3 Incomplete Transaction

For purposes of this Section 3.12, a transaction is an Incomplete Transaction if it involves a debit Entry authorized by a consumer Receiver (or any Receiver with respect to an ARC, BOC, or POP Entry) for the purpose of funding a corresponding payment to a third-party payee, but the Originator, Third-Party Sender, or ODFI of the debit Entry failed to make or complete the corresponding payment to the intended third-party payee. An Incomplete Transaction does not include a partial or erroneous payment made to the intended third-party payee.

SUBSECTION 3.12.4 Improperly Reinitiated Debit Entries

For purposes of this Section 3.12, a Reinitiated debit Entry is improper if it is part of any of the following Reinitiation practices:

- (a) following the Return of an Entry, initiating an Entry to the same Receiver in an amount greater than the amount of the previously Returned Entry in payment or fulfillment of the same underlying obligation plus an additional fee or charge.
- (b) following the Return of an Entry, initiating one or more Entries to the same Receiver in an amount(s) less than the original Entry in payment or fulfillment of a portion of the same underlying obligation.
- (c) reinitiating any Entry that was Returned as unauthorized.
- (d) initiating any other Entry that the National Association reasonably believes represents an attempted evasion of the limitations on Reinitiation.

SUBSECTION 3.12.5 RDFI Must Accept Written Statement of Unauthorized Debit

An RDFI must accept a Written Statement of Unauthorized Debit from a Receiver with respect to any:

- (a) unauthorized or improper debit Entry to a Consumer Account;
- (b) unauthorized or improper ARC, BOC, or POP Entry to a Non-Consumer Account;
- (c) unauthorized IAT Entry;

- (d) Incomplete Transaction to a Consumer Account or an Incomplete Transaction involving any ARC, BOC, or POP Entry; and
- (e) Improperly Reinitiated Debit Entry.

The Written Statement of Unauthorized Debit must be signed or similarly authenticated by the Receiver, submitted within the time frames provided by these Rules, and otherwise conform to the requirements of this Section 3.12.

The Written Statement of Unauthorized Debit must include the following minimum information for each Entry for which recredit is requested by the Receiver:

- (f) Receiver's printed name and signature;
- (g) Receiver's account number;
- (h) identity of the party (i.e., the payee) debiting the account, as provided to the Receiver, and, if different, the name of the intended third-party payee;
- (i) date the Entry was posted to the account;
- (j) dollar amount of Entry;
- (k) reason for return;
- (l) signature date;
- (m) Receiver assertion that the Written Statement of Unauthorized Debit is true and correct; and
- (n) Receiver assertion that the Receiver is an authorized signer or has corporate authority to act on the account.

The Written Statement of Unauthorized Debit must be dated on or after the Settlement Date of the Entry(ies) for which recredit is requested.

More than one unauthorized debit Entry from a single Originator may be documented on a Written Statement of Unauthorized Debit, provided that all of the information detailed above is provided for each debit Entry for which the Receiver is seeking recredit.

SUBSECTION 3.12.6 Retention of Written Statement of Unauthorized Debit

An RDFI must retain the original or a reproducible copy of each Written Statement of Unauthorized Debit for at least one year from the Settlement Date of the Extended Return Entry(ies) to which the Written Statement of Unauthorized Debit relates.

SUBSECTION 3.12.7 Copy of Written Statement of Unauthorized Debit

An RDFI Transmitting an Extended Return Entry as provided in Section 3.13 (RDFI Right to Transmit Extended Return Entries) must provide to an ODFI a copy of the Written Statement of Unauthorized Debit obtained from the Receiver in accordance with this Section 3.12 within ten Banking Days after receiving a written request from the ODFI, provided that such request is received by the RDFI within one year of the date of the initiation of the Extended Return Entry.

SECTION 3.12 Written Statement of Unauthorized Debit (revised section)

An RDFI must accept a Written Statement of Unauthorized Debit meeting the requirements of Subsection 3.12.4 (Form of Written Statement of Unauthorized Debit) from a Receiver with respect to:

- (a) *an unauthorized debit Entry to a Consumer Account of a Receiver; an unauthorized IAT debit to any Receiver's account; or a debit Entry to a Consumer Account of a Receiver for which the Receiver revoked authorization; as defined in Subsection 3.12.1 (Unauthorized Debit Entry/Authorization for Debit Has Been Revoked);*
- (b) *a debit Entry to a Consumer Account of a Receiver, or an ARC, BOC, or POP entry to any Receiver's account, that was not initiated in accordance with the terms of the authorization, as defined in Subsection 3.12.2 (Debit Entry Not in Accordance with the Terms of the Authorization);*
- (c) *an improperly originated RCK Entry, as defined in Subsection 3.12.3 (Improperly Reinitiated RCK Entry).*

SUBSECTION 3.12.1 Unauthorized Debit Entry/Authorization for Debit Has Been Revoked

For purposes of this Section 3.12, a debit Entry was not authorized by the Receiver if:

- (a) *the authorization requirements of Section 2.3 (Authorization and Notice of Entries) were not met;*
- (b) *for ARC and BOC entries, the Receiver's signature on the source document is not authentic, valid, or authorized;*
- (c) *for POP entries, the Receiver's signature on the written authorization is not authentic, valid, or authorized; or*
- (d) *the Originator obtained an authorization meeting the requirements of Section 2.3, but the Receiver revoked the authorization directly with the Originator, in accordance with the terms of the authorization, prior to the initiation of the Entry.*

An unauthorized debit Entry does not include a debit Entry initiated with fraudulent intent by the Receiver or any Person acting in concert with the Receiver.

SUBSECTION 3.12.2 Debit Entry Not in Accordance with the Terms of the Authorization

For purposes of this Section 3.12, a debit Entry was not "in accordance with the terms of the authorization" if:

- (a) *the debit Entry was initiated in an amount different than authorized by the Receiver;*
- (b) *the debit Entry was initiated for settlement earlier than authorized by the Receiver;*
- (c) *the ARC, BOC, or POP Entry was improperly originated, as defined by Subsection 3.12.2.1 (Improper ARC, BOC, and POP Debit Entries);*
- (d) *the Entry is part of an Incomplete Transaction, as defined by Subsection 3.12.2.2 (Incomplete Transaction); or*
- (e) *the Entry was improperly reinitiated, as defined by Subsection 3.12.2.3 (Improperly Reinitiated*

Debit Entries).

SUBSECTION 3.12.2.1 Improper ARC, BOC, and POP Debit Entries

For purposes of this Section 3.12, a debit Entry was improper if it was:

(a) an ARC, BOC, or POP Entry to any Receiver's account for which:

- (i) the source document used for the Entry was not an Eligible Source Document; or*
- (ii) the Check that was used as a source document for the Entry was paid by the RDFI;*

(b) an ARC or BOC Entry to any Receiver's account for which:

- (i) notice was not provided by the Originator in accordance with Subsection 2.5.1.2 (Authorization of ARC Entries by Notification) or Subsection 2.5.2.2 (Authorization of BOC Entries by Notification), as applicable; or*
- (ii) the amount of the Entry was not accurately obtained from the Eligible Source Document.*

SUBSECTION 3.12.2.2 Incomplete Transaction

For purposes of this Section 3.12, a transaction is an Incomplete Transaction if it involves a debit Entry authorized by a consumer Receiver (or any Receiver with respect to an ARC, BOC, or POP Entry) for the purpose of funding a corresponding payment to a third-party payee, but the Originator, Third-Party Sender, or ODFI of the debit Entry failed to make or complete the corresponding payment to the intended third-party payee. An Incomplete Transaction does not include a partial or erroneous payment made to the intended third-party payee.

SUBSECTION 3.12.2.3 Improperly Reinitiated Debit Entries

For purposes of this Section 3.12, a Reinitiated debit Entry is improper if it is part of any of the following Reinitiation practices:

- (a) following the Return of an Entry, initiating an Entry to the same Receiver in an amount greater than the amount of the previously Returned Entry in payment or fulfillment of the same underlying obligation plus an additional fee or charge.*
- (b) following the Return of an Entry, initiating one or more Entries to the same Receiver in an amount(s) less than the original Entry in payment or fulfillment of a portion of the same underlying obligation.*
- (c) reinitiating any Entry that was Returned as unauthorized.*
- (d) initiating any other Entry that the National Association reasonably believes represents an attempted evasion of the limitations on Reinitiation.*

SUBSECTION 3.12.3 Improperly Originated RCK Entry

An improperly originated RCK Entry is one for which:

- (a) notice stating the terms of the RCK Entry policy was not provided by the Originator in accordance with Subsection 2.5.13.2 (Authorization of RCK Entries by Notification);*

- (b) *the item to which the RCK Entry relates is not an eligible item;*
- (c) *all signatures on the item to which the RCK Entry relates are not authorized or authentic;*
- (d) *the item to which the RCK Entry relates has been altered;*
- (e) *the amount of the RCK Entry was not accurately obtained from the item; or*
- (f) *both the RCK Entry and the item to which the RCK Entry relates have been paid.*

SUBSECTION 3.12.4 Form of Written Statement of Unauthorized Debit

The Written Statement of Unauthorized Debit must be signed or similarly authenticated by the Receiver, submitted within the time frames provided by these Rules, and otherwise conform to the requirements of this Section 3.12.

The Written Statement of Unauthorized Debit must include the following minimum information for each Entry for which recredit is requested by the Receiver:

- (a) *Receiver's printed name and signature;*
- (b) *Receiver's account number;*
- (c) *identity of the party (i.e., the payee) debiting the account, as provided to the Receiver, and, if different, the name of the intended third-party payee;*
- (d) *date the Entry was posted to the account;*
- (e) *dollar amount of Entry;*
- (f) *reason for return;*
- (g) *signature date;*
- (h) *Receiver assertion that the Written Statement of Unauthorized Debit is true and correct; and*
- (i) *Receiver assertion that the Receiver is an authorized signer or has corporate authority to act on the account.*

The Written Statement of Unauthorized Debit must be dated on or after the Settlement Date of the Entry(ies) for which recredit is requested.

More than one unauthorized debit Entry from a single Originator may be documented on a Written Statement of Unauthorized Debit, provided that all of the information detailed above is provided for each debit Entry for which the Receiver is seeking recredit.

SUBSECTION 3.12.5 Retention of Written Statement of Unauthorized Debit

An RDFI must retain the original or a reproducible copy of each Written Statement of Unauthorized Debit for at least one year from the Settlement Date of the Extended Return Entry(ies) to which the Written Statement of Unauthorized Debit relates.

SUBSECTION 3.12.6 Copy of Written Statement of Unauthorized Debit

An RDFI Transmitting an Extended Return Entry as provided in Section 3.13 (RDFI Right to Transmit Extended Return Entries) must provide to an ODFI a copy of the Written Statement of Unauthorized Debit obtained from the Receiver in accordance with this Section 3.12 within ten Banking Days after receiving a written request from the ODFI, provided that such request is received by the RDFI within one year of the Settlement Date of the Extended Return Entry.

ARTICLE EIGHT

Definitions of Terms Used in These Rules

SECTION 8.111 “Unauthorized Entry Fee”

a fee paid by an ODFI to the respective RDFI for a debit Entry (except for a debit IAT Entry) that is Returned to the ODFI with a Return reason code of R05, R07, R10, R29, or R51.

a fee paid by an ODFI to the respective RDFI for a debit Entry (except for a debit IAT Entry) that is Returned to the ODFI with a Return reason code of R05, R07, R10, R11⁴, R29, or R51.

SECTION 8.112 “Unauthorized Entry Return Rate”

the rate at which an Originator’s or Third-Party Sender’s debit Entries are returned on the basis that they were unauthorized (Return Reason Codes R05, R07, R10, R29, or R51), as calculated in accordance with Subsection 2.17.2.1(d) (ODFI Return Rate Reporting Regarding an Originator’s or Third-Party Sender’s Unauthorized Entry Return Rate).

the rate at which an Originator’s or Third-Party Sender’s debit Entries are returned on the basis that they were unauthorized (Return Reason Codes R05, R07, R10, R11, R29, or R51), as calculated in accordance with Subsection 2.17.2.1(d) (ODFI Return Rate Reporting Regarding an Originator’s or Third-Party Sender’s Unauthorized Entry Return Rate).

SECTION 8.117 “Written Statement of Unauthorized Debit”

a written notice submitted to an RDFI by a Receiver requesting recredit to the Receiver’s account with the RDFI for a debit to the Receiver’s account that was not authorized by the Receiver, was improper, or was part of an Incomplete Transaction, as provided in Section 3.12 (Written Statement of Unauthorized Debit).

a written notice submitted to an RDFI by a Receiver requesting recredit to the Receiver’s account with the RDFI for a debit to the Receiver’s account that (a) was not authorized by the Receiver or was one for which the Receiver’s authorization was revoked; (b) was not initiated in accordance with the terms of the authorization; or (c) was an improperly-originated RCK Entry as provided in Section 3.12 (Written Statement of Unauthorized Debit).

APPENDIX THREE

ACH Record Format Specifications

⁴ Effective April 1, 2021

SUBPART 3.2.2 Glossary of Data Elements

Addenda Information: 44 Positions – Addenda Record – Optional (Returns except IAT); 34 Positions – Addenda Record – Optional (IAT Returns); 21 Positions – Addenda Record – Optional/Mandatory (dishonored Returns)

Addenda Information is associated with the immediately preceding Entry Detail Record.

The Addenda Information field of a Return Entry is used by the RDFI to relay explanatory information that is required with the use of Return Reason Codes R11 (Check Truncation Entry Return) and R17 (File Record Edit Criteria).

The Addenda Information field of a Return Entry is used by the RDFI to relay explanatory information that is required with the use of Return Reason Code R17 (File Record Edit Criteria).

The Addenda Information Field of a dishonored Return Entry is a mandatory field when the dishonored Return bears Return Reason Code R69 (Field Error(s)). When using Return Reason Code R69, the ODFI must insert the appropriate code(s) from the list below, separated by an asterisk (*), within the Addenda Information Field of the Addenda Record Format for dishonored Returns to indicate the field(s) in which the errors occur:

- 01 Return Contains Incorrect DFI Account Number
- 02 Return Contains Incorrect Original Entry Trace Number
- 03 Return Contains Incorrect Dollar Amount
- 04 Return Contains Incorrect Individual Identification Number/Identification Number
- 05 Return Contains Incorrect Transaction Code
- 06 Return Contains Incorrect Company Identification Number
- 07 Return Contains an Invalid Effective Entry Date

For example: 01*03*06

APPENDIX FOUR

Return Entries

An RDFI may return Entries for any reason, except as otherwise provided in Article Three, Subsection 3.8.1 (Restrictions on RDFI's Right to Transmit Return Entries) of these Rules. The RDFI must use an appropriate Return Reason Code as specified in this Appendix Four. If it uses Return Reason Code R11 or R17, it must specify the reason for the Return. If no appropriate Return Reason Code is defined within this Appendix Four, the RDFI must use the code that most closely approximates the reason for Return.

An RDFI may return Entries for any reason, except as otherwise provided in Article Three, Subsection 3.8.1 (Restrictions on RDFI's Right to Transmit Return Entries) of these Rules. The RDFI must use an appropriate Return Reason Code as specified in this Appendix Four. If it uses Return Reason Code R17, it must specify the reason for the Return. If no appropriate Return Reason Code is defined within this

Appendix Four, the RDFI must use the code that most closely approximates the reason for Return.

Please see changes to the descriptions of Return Reason Codes R10 and R11 in the attached Table of Return Reason Codes.

PART 4.2 Table of Return Reason Codes

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R10	Customer Advises Unauthorized, Improper, Ineligible, or Part of an Incomplete Transaction Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account	The RDFI has been notified by the Receiver that the Entry is unauthorized, improper, ineligible, or part of an Incomplete Transaction. <i>The RDFI has been notified by the Receiver that the Receiver does not know the identity of the Originator; has no relationship with the Originator; or has not authorized the Originator to debit his account.</i> <i>For ARC and BOC entries, the RDFI has been notified by the Receiver that the signature on the source document is not authentic, valid, or authorized.</i> <i>For POP Entries, the RDFI has been notified by the Receiver that the signature on the written authorization is not authentic, valid, or authorized.</i>	RDFI	Extended Return	Consumer; for ARC, BOC, IAT, or POP. Entries may also be a Non-Consumer. See note for additional exceptions.	** 60 Calendar Days	Yes	Article Three, Subsection 3.12.1 - Unauthorized Debit Entry. Article Three, Subsection 3.12.2 - Improper ARC, BOC, POP, and RCK Debit Entries. Article Three, Subsection 3.12.3 - Incomplete Transaction. Article Three, Subsection 3.12.4, Improperly Reinitiated Debit Entries. Article Three, Subsection 3.1.3 - RDFI May Rely on Standard Entry Class Codes. Article Three, Subsection 3.4.1.1 Rule Exception for CCD and CTX Entries to Consumer Accounts. Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries. Article Eight, Section 8.53 - Incomplete Transaction. <i>Article Three, Subsection 3.12.1(a) - Unauthorized Debit Entry.</i> <i>Article Three, Subsection 3.12.2(a) - Improper ARC, BOC, POP, and RCK Debit Entries.</i> <i>Article Three, Subsection 3.1.3 - RDFI May Rely on Standard Entry Class Codes.</i> <i>Article Three, Subsection 3.4.1.1 Rule Exception for CCD and CTX Entries to Consumer Accounts.</i> <i>Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries.</i>	May be used for any Entry except CCD or CTX Entries to Consumer Accounts, see R05. For CCD or CTX to Non-Consumer Accounts, see R29. May also be used to return an unauthorized debit Entry to a Non-Consumer Account if the debit Entry contains a consumer SEC Code. <i>Used for the return of an unauthorized debit to a Consumer Account and for an unauthorized IAT debit to any account. Not for use with CCD or CTX Entries. For CCD or CTX Entries to Consumer Accounts, see R05. For CCD or CTX to Non-Consumer Accounts, see R29. May be used to return an unauthorized debit Entry to a Non-Consumer Account if the debit Entry contains a consumer SEC Code.</i> <i>Not for use when the Originator and Receiver have a relationship and an authorization to debit exists, but there is an error or defect in the payment such that it does not conform to the terms of the authorization (i.e., entry is for an amount different than authorized; entry was initiated for settlement earlier than authorized; improperly-initiated ARC, BOC, POP entries; incomplete transaction; improperly reinitiated entry).</i> <i>For these conditions, see Return Reason Code R11.</i> <i>For ARC, BOC, and POP entries where notice was not provided, use R11.</i>

* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the second Banking Day following the Settlement Date of the original Entry.
 ** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the Banking Day following the sixtieth calendar day following the Settlement Date of the original Entry.

PART 4.2 Table of Return Reason Codes (continued)

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R11	<p>Check Truncation Entry Return</p> <p><i>Customer Advises Entry Not in Accordance with the Terms of the Authorization</i></p>	<p>This Return Reason Code is used when returning a Check truncation Entry.</p> <p><i>The RDFI has been notified by the Receiver that the Originator and Receiver have a relationship and an authorization to debit exists, but there is an error or defect in the payment such that the entry does not conform to the terms of the authorization (for example, the entry is for an amount different than authorized; the entry was initiated for settlement earlier than authorized; the entry is part of an Incomplete Transaction; the debit entry was improperly reinitiated; for ARC, BOC, or POP entries: ineligible source document, notice was not provided; amount of the entry was not accurately obtained from the source document.</i></p>	RDFI	<p>Return</p> <p><i>Extended Return</i></p>	<p>Consumer or Non-Consumer</p> <p><i>Consumer: For ARC, BOC, POP, and LAT entries, may also be a Non-Consumer.</i></p> <p><i>See note for additional exceptions.</i></p>	<p>* 2 Banking Days</p> <p><i>**60 Calendar Days</i></p>	<p>No</p> <p><i>Yes</i></p>	<p>Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.</p> <p><i>Article Three, Subsection 3.12.1(b); 3.12.1(c) - Unauthorized Debit Entry</i></p> <p><i>Article Three, Subsection 3.12.2 - Improper ARC, BOC, POP, and RCK</i></p> <p><i>Article Three, Subsection 3.12.3 - Incomplete Transaction</i></p> <p><i>Article Three, Subsection 3.12.4 - Improperly Reinitiated Debit Entries</i></p> <p><i>Article Three, Subsection 3.1.3</i></p> <p><i>- RDFI May Rely on Standard Entry Class Codes</i></p> <p><i>Article Three, Subsection 3.4.1.1 - Rule Exception for CCD and CTX Entries to Consumer Accounts</i></p> <p><i>Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries</i></p> <p><i>Article Eight, Section 8.53 - Incomplete Transaction</i></p>	<p>This Return Reason Code should be used only if no other code is applicable. The RDFI must use the Addenda Information field in the Return Addenda Record to specify the reason for return (e.g. "exceeds dollar amount," "stale date," etc.).</p> <p><i>Not to be used to return (1) entries where the Originator and Receiver have no relationship or the Receiver has not authorized the Originator to debit the Receiver's account; (2) ARC and BOC entries for which the Receiver has notified the RDFI that the signature on the source document is not authentic or authorized, or (3) POP entries for which the Receiver has notified the RDFI that the signature on the written authorization is not authentic or authorized. (See Return Reason Code R10)</i></p> <p><i>Not for use with CCD or CTX Entries. For CCD or CTX Entries to Consumer Accounts, see R05. For CCD or CTX Entries to Non-Consumer Accounts, see R29.</i></p> <p><i>This code may be used for the return of an Entry bearing a consumer SEC Code that has been received to a non-Consumer Account, where the debit Entry was not in accordance with the terms of the authorization.</i></p> <p><i>For ARC, BOC, and POP entries for which the source document has been presented for payment, use R37.</i></p>

* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the second Banking Day following the Settlement Date of the original Entry.

** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the Banking Day following the sixtieth calendar day following the Settlement Date of the original Entry.



NOTICE OF AMENDMENT
TO THE
2019 NACHA OPERATING RULES

July 26, 2019

SUPPLEMENT #3-2019

1. Effective Date of New Same Day ACH Window

 2. Amount of Unauthorized Entry Fee

 3. Effective Date of Supplementing Fraud Detection Standards
for WEB Debits
-

Supplement #3-2019 to the *NACHA Operating Rules*

Supplement #3-2019 contains changes to the effective dates of the rules for the New Same Day ACH Window and Supplementing Fraud Detection Standards for WEB Debits. This supplement also contains information on the Unauthorized Entry Fee. Please see the following for details on each update.

To ensure compliance with the most current rules, this supplement should be used in conjunction with the 2019 edition of the *NACHA Operating Rules*.

Effective Date of New Same Day ACH Window

SUMMARY

The effective date of the new Same Day ACH processing window is deferred by 6 months until March 19, 2021.

DISCUSSION

Nacha Rules Ballot #1-2018, Expanding Access to Same Day ACH, provides for the establishment of a third, daily Same Day ACH processing window. The rule was approved on September 13, 2018.

The rule provided that the original effective date of September 18, 2020 was contingent on receiving timely notification from the Federal Reserve Board of Governors of changes to Federal Reserve services necessary to support the new Same Day ACH processing window. The date for receiving this notification was set at June 30, 2019. As of this date, notification has not been received. The rule provides that in this event, the effective date for the new Same Day processing window will be deferred by 6 months to March 19, 2021.

Please refer to the 2019 *NACHA Operating Rules* for detailed information on this rule.

Unauthorized Entry Fee

The *NACHA Operating Rules* require each Originating Depository Financial Institution (ODFI) to pay an Unauthorized Entry Fee to the respective Receiving Depository Financial Institution (RDFI) for each ACH debit Entry that is returned as unauthorized. The Unauthorized Entry Fee applies to any returned debit Entry with a Return Reason Code of R05, R07, R10, R29, or R51. International ACH Transactions are not covered by the fee at this time.

By rule, all ODFIs agree to pay the Unauthorized Entry Fee, and ODFIs and RDFIs authorize debits and credits to their accounts for the collection and distribution of the fees. The charges and credits for these fees are reflected on a Participating Depository Financial Institution's statement from its ACH Operator.

Nacha sets and reviews every three years the amount of the Unauthorized Entry Fee. In setting the amount of the fee, Nacha applies several stated principles, including the review of RDFI cost surveys.

The amount of the fee for the next 3-year period will remain the same at \$4.50 per covered return. The period will run from October 1, 2019 through September 30, 2022.

The accompanying chart provides information on the Unauthorized Entry Fee, effective October 1, 2019.

National Automated Clearing House Association

2019 Schedule of Fees

Unauthorized Entry Fee

The Unauthorized Entry Fee has been established by Nacha effective October 1, 2019 in accordance with the requirements of the *NACHA Operating Rules*, Article One (General Rules), Section 1.11 (Unauthorized Entry Fee).

- Unauthorized Entry Fee (Effective October 1, 2019) . . . \$ 4.50

Effective Date of Supplementing Fraud Detection Standards for WEB Debits

SUMMARY

The upcoming effective date of the rule on Supplementing Fraud Detection Standards for WEB Debits is extended from January 1, 2020 to March 19, 2021. This extension is in response to industry requests to allow additional time for awareness, education and implementation.

DISCUSSION

In November 2018, the Nacha membership approved a set of rule changes related to ACH quality and risk management. Included as part of these rules changes was a supplement to the existing rule on fraud screening for WEB debits.

Under the current rules, Originators of WEB debits are required to use a “commercially reasonable fraudulent transaction detection system” to screen WEB debits. The new rule makes explicit that account validation is an inherent part of any commercially reasonable fraudulent transaction detection system. Originators of WEB debits will be required to validate the Receiver’s account number for its first use with a WEB debit entry, and for any subsequent changes to the account number, on a going-forward basis beginning on the effective date.

As originally approved, this rule change would have become effective on January 1, 2020. In response to industry needs for additional time to implement the rule, the Nacha Board of Directors has approved an extension of the effective date of this rule until March 19, 2021.

Please refer to the 2019 *NACHA Operating Rules* for detailed information on this rule.



NOTICE OF AMENDMENT
TO THE
2019 NACHA OPERATING RULES

September 11, 2019
SUPPLEMENT #4-2019

Network Administration Fees
Effective Date: January 1, 2020

Supplement #4-2019 to the *NACHA Operating Rules*

Supplement #4-2019 contains the 2020 ACH Network Administration Fees as approved by Nacha's Board of Directors. The new fee schedule is effective January 1, 2020.

To ensure compliance with the most current rules, this supplement should be used in conjunction with the 2019 edition of the *NACHA Operating Rules*.

Network Administration Fees

The *NACHA Operating Rules* require each Participating Depository Financial Institution that transmits or receives ACH entries (commercial and Federal Government) to pay an annual fee and a per-entry fee to cover costs associated with the administration of the ACH Network. These Network Administration Fees apply to all entries subject to the requirements of the *NACHA Operating Rules*, whether such entries are transmitted via an ACH Operator, sent directly from one Participating DFI to another, or sent through another entity. The Network Administration Fees have been established by the Nacha Board of Directors and are reviewed and modified, as appropriate, on an annual basis.

NETWORK ADMINISTRATION FEES AND DATA REPORTING REQUIREMENTS

The accompanying chart provides information on the amount of the annual and per-entry fees for the 2020 calendar year. The ACH Operators collect the annual fees and per-entry fees on behalf of Nacha for entries sent from one Participating DFI to another Participating DFI through the ACH Operators.

Financial institutions are required to report and Nacha collects directly the per-entry fees for ACH entries not sent through the ACH Operators, but that are sent as part of direct send or “on-we” arrangements. A direct send or “on-we” arrangement is one in which a Participating DFI sends a payment file that uses the Nacha formats and/or is covered by the *NACHA Operating Rules*, where that file is not processed by an ACH Operator, but instead is exchanged with another non-affiliated Participating DFI, either directly or through another entity. This definition applies regardless of how interbank settlement is accomplished.

Participating DFIs with direct send or “on-we” volume exceeding 5 million entries annually are obligated to file the requisite reporting with Nacha quarterly. Participating DFIs with direct send volume below this threshold are obligated to file with Nacha annually. These financial institutions are required to submit transaction volume data and any associated fees directly to Nacha using Form N-7 (2020). Any Participating DFI whose direct send or “on we” volume of entries originated or received exceeds 5 million for any quarter ending March 31, June 30, September 30, or December 31, 2020 must submit the above data and fees on a quarterly basis thereafter. The submission deadlines for quarterly filers are April 30, July 31, and October 31, 2020, and January 31, 2021. Participating DFIs that exceed the threshold during the calendar year must aggregate all prior quarters’ fees in their current quarter’s Form N-7 (2020) payment. Participating DFIs whose direct send volume is below this threshold must submit the above data and fees for calendar year 2020 by January 31, 2021.

**Nacha
2020 Schedule of Fees**

ACH Network Administration Fees

This Schedule of Fees has been established by the Nacha Board of Directors for calendar year 2020 in accordance with the requirements of the *NACHA Operating Rules*, Article One (General Rules), Section 1.13 (Network Administration Fees).

- Per-Entry Fee (January 1–December 31) \$.000185
- Annual Fee \$ 264.00

NETWORK ADMINISTRATION FEES — FILING REQUIREMENTS FOR PARTICIPATING DEPOSITORY FINANCIAL INSTITUTIONS

Form N-7 (2020) is provided for the purposes of reporting and submitting payment of Network Administration Fees, as required by the *NACHA Operating Rules*, on ACH entries that are transmitted or received under a direct send or “on-we” arrangement. These reporting requirements are not applicable to Participating DFIs whose entries are processed exclusively through an ACH Operator, where all applicable transaction volume will be reported to and fees collected by the ACH Operators on behalf of Nacha.

Who Must File

Any Participating DFI that transmits or receives entries that use the Nacha formats and/or are covered by the *NACHA Operating Rules*, where those entries are not processed by an ACH Operator, but instead are exchanged with another non-affiliated Participating DFI, either directly or through another entity, during the 2020 calendar year.

Who Does Not Have to File

Any Participating DFI that transmits and receives 100% of its ACH entries during 2020 through an ACH Operator or with affiliated Participating DFIs does not need to file Form N-7 (2020). All applicable Network Administration Fees are billed and collected on Nacha’s behalf by the ACH Operator, and appear on your customer statement as “Nacha Admin Network Fee/Entry” and “Nacha Admin Network Fee/Month.”

When and Where to File

Any Participating DFI whose direct send or “on-we” volume of entries originated and received exceeds 5 million for any quarter ending March 31, June 30, September 30, or December 31, 2020 must file on a quarterly basis thereafter. The submission deadlines for quarterly filers are April 30, July 31, and October 31, 2020, and January 31, 2021. Participating DFIs that exceed this threshold during the calendar year must aggregate all prior quarters’ fees in the current quarter’s payment. Participating DFIs whose direct send or “on-we” volume is below the threshold must submit their calendar year 2020 data and fees by January 31, 2021.

Completed forms and payment must be received by Nacha no later than the above deadlines and should be mailed to: Nacha, Attn: Finance Department, 2550 Wasser Terrace, Suite 400, Herndon, VA 20171. Payment may be made by ACH credit or check (made payable to Nacha).

To pay by ACH credit, credit must be initiated by the organization filing Form N-7. UPIC Routing & Transit # 021052053, Acct # 59058945. Use CCD format for single filing. Complete in Batch Header (1) Company Name (2) Company Entry Description (specify Form N-7 (2020)).

Form Instructions

Line 1. Enter legal name of Participating DFI.

Line 2. Enter mailing address of Participating DFI.

Line 3a. List the number of ACH entries transmitted and received by the Participating DFI that were not processed by an ACH Operator but were exchanged with another non-affiliated Participating DFI, either directly or through another entity, for the applicable period. Entries should be sorted by routing number of the non-affiliated DFI and include debits, credits and entries of non-value. If there are more routing numbers than spaces available, attach another sheet. Total columns and add together to calculate the grand total.

Line 3b. Enter the grand total from line 3a.

Line 4. Represents the 2020 per entry fee of \$.000185

Line 5. Multiply line 3b by line 4 [example: (line 3b) 100,000 x (line 4) \$.000185 = (line 5) \$18.50]

Line 6. Payment due is equal to the amount on line 5. Indicate payment method. If by check, make check payable to Nacha. If payment by ACH Credit, indicate date of credit to be initiated by the business. See account information above for ACH Credit. If amount on line 5 is less than one dollar, submit the completed form only; no payment is due.

Still Need Additional Information?

Downloadable Forms and Instructions are available at <https://www.nacha.org/content/what-is-ach> or contact Member Services, 800-487-9180 or 703-561-1100 or email: info@nacha.org.

FORM N-7 (2020)

Select Filing Period and Deadline (check all that apply):

	<i>Period</i>	<i>Filing Deadline</i>
For annual filers:	<input type="checkbox"/> December 31, 2020	January 31, 2021
For quarterly filers:	<input type="checkbox"/> March 31, 2020	April 30, 2020
	<input type="checkbox"/> June 30, 2020	July 31, 2020
	<input type="checkbox"/> September 30, 2020	October 31, 2020
	<input type="checkbox"/> December 31, 2020	January 31, 2021

1. Financial Institution Name _____

2. Business Address _____

3. Direct Send Information

a. 2020 direct send ACH entries by routing number of non-affiliated Participating DFI *(see instructions)*

DIRECT SEND DETAIL

ROUTING NUMBER	ENTRIES RECEIVED	ENTRIES ORIGINATED
TOTALS		
GRAND TOTAL (TOTAL RECEIVED + TOTAL ORIGINATED)		

FORM N-7 (2020)
(continued)

- b. 2020 total direct send ACH entries *(see instructions)* _____
4. 2020 per entry fee x \$.000185
5. Uncollected 2020 Network Administrative Fees (line 3b x line 4) \$ _____
6. Payment Due: (Amount on line 5) Check enclosed _____ or Date of ACH credit _____
(If less than \$1.00, no payment due, submit form only)

I declare that I have examined this form and to the best of my knowledge and belief, it is true, correct and complete.

Signature _____ Date _____

Printed Name _____

Title _____

Financial Institution Name _____

Email Address _____ Phone Number _____

Mail completed form and payment to:

Nacha
Attn: Finance Department
2550 Wasser Terrace, Suite 400
Herndon, VA 20171