



January 14, 2020

TO: Direct Financial Institution Members  
Payments Association Members  
ACH Operators  
Software Information Exchange

FROM: Nacha Network Rules

RE: 2020 Nacha Operating Rules – Supplement #1-2020

**FOR YOUR INFORMATION**

On November 19, 2019, Nacha's Voting Membership approved an amendment to the Nacha Operating Rules (Rules) for an ACH Contact Registry. The amendment will become effective in two phases, July 1, 2020 and August 1, 2021. Please see the supplement for details on the rule change and its effective dates.

Supplement #1-2020 also contains information on the Effective Date of the New Same Day ACH window, which was approved on September 13, 2018.

To ensure compliance with the most current rules, this supplement should be used in conjunction with the 2020 edition of the Nacha Operating Rules.

Please note that this is a limited distribution communication. Subscribers to the Rules who purchased their subscriptions directly from Nacha will receive notice of the supplement as part of a general distribution within 5 business days. The general supplement distribution will include detailed instructions on how to download the supplement via [nacha.org](http://nacha.org).

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If you have any questions or need additional information regarding the content of this supplement, you may contact Nacha's Network Rules Department at (703) 561-1100.

Attachment



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NOTICE OF AMENDMENT  
TO THE  
2020 NACHA OPERATING RULES

January 14, 2020  
SUPPLEMENT #1-2020

1. ACH Contact Registry  
*Effective Date: July 1, 2020*

2. New Same Day ACH Window  
*Effective Date: March 19, 2021*

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# Supplement #1-2020 to the Nacha Operating Rules

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On November 19, 2019, the Nacha Voting Membership approved an amendment to the Nacha Operating Rules for an ACH Contact Registry. The rule will become effective on July 1, 2020.

This supplement provides ACH Network participants with a summary of the key components of the change, along with details regarding the technical changes to Rules language.

Supplement #1-2020 also contains information on the Effective Date of the New Same Day ACH Window, which was approved on September 13, 2018.

To ensure compliance with the most current rules, this Supplement should be used in conjunction with the 2020 edition of the Rules.

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## ACH Contact Registry

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### SUMMARY

In today's environment, financial institutions seek ways to contact and communicate quickly with other financial institutions about specific ACH payments and exceptions; error, fraud and risk events; and the recovery of funds, among other issues. A common concern for ODFIs and RDFIs is the difficulty in determining who to contact at other financial institutions and the best method for making that contact. In many instances time is of the essence, leading financial institutions to reach out to their Payments Association, ACH Operator, Nacha or others for help in locating a contact. A comprehensive ACH contact registry addresses many of the issues related to locating and communicating with the proper contact and the best contact method at a counterparty financial institution.

Under the ACH Contact Registry Rule (the Rule), all ACH financial institutions will be required to register contact information for their ACH operations and fraud and/or risk management areas. Financial institutions may voluntarily register contacts for additional personnel or departments at their discretion. The contact information will be available for other registered ACH participating financial institutions, Payments Associations, the ACH Operators and Nacha to use with ACH-related system outages, erroneous payments, duplicates, reversals, fraudulent payments and any other use within scope, such as identifying the proper contact for letters of indemnity. Use of the contact information is limited to these internal purposes only. The Rule requires financial institutions to update their registry information within 45 days of any change and to verify it on an annual basis. Registration will be done via Nacha's Risk Management Portal.

### IMPACT TO PARTICIPANTS

*ODFIs and RDFIs:* ODFIs and RDFIs will be required to register contact information with Nacha, and keep that information up to date. ODFIs and RDFIs will have to establish procedures to ensure that their contact registry information stays current. Financial institutions will need to determine contact information for the purpose of registration and how to route inquiries internally. All ODFIs and RDFIs will need to consider and address the circumstances under which they will use the registry, as well as how to handle and respond to any inquiries they receive.

### EFFECTIVE DATE

The Rule will become effective in two phases:

- July 1, 2020 - the date on which the registration portal will be available for Participating DFIs to begin to submit and query contact information. All Participating DFIs must complete their registration by October 30, 2020.
- August 1, 2021 - the date on which Nacha's enforcement authority for this Rule becomes effective.

### TECHNICAL SUMMARY

Below is a summary of the impact of the ACH Contact Registry rule on the Nacha Operating Rules. Sections of the Rules that are affected by this amendment are also included and reflect rule language as it will read upon implementation in highlighted, italicized text.

- *Article One, Section 1.14 (Participating DFI Contact Registration)* – New section establishes the requirement for Participating DFIs to provide contact information to Nacha
- *Appendix Nine, Part 9.3 (Participating DFI Registration Requirements)* – Renames this part to apply to all Participating DFIs

- *Appendix Nine, Subpart 9.3.3 (Participating DFI Contact Registration (new subsection))* – New subsection establishes Nacha’s enforcement authority with respect to the Rule
- *Appendix Nine, Subpart 9.4.7.4 (Fines and Penalties)* – Includes the failure of a Participating DFI to provide registration information within the definition of a Class 2 rules violation

*As approved November 19, 2019, effective July 1, 2020, the Rules will be amended as follows for changes related to ACH Contact Registry:*

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ARTICLE ONE

General Rules

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**SECTION 1.14 Participating DFI Contact Registration (new section)**

*A Participating DFI must register with the National Association specific contact information for personnel or departments responsible for: (a) ACH operations; and (b) fraud and/or risk management. A Participating DFI may register contacts for additional personnel or departments, at its discretion.*

*For each of the areas listed above, a Participating DFI must provide the National Association with either: (a) the name, title, email address, and phone number for at least one primary and one secondary contact person; or (b) general department contact information that includes an email address and a working telephone number. Registered phone numbers and email addresses must be those that are monitored and answered during normal business hours for financial institution inquiries.*

*A Participating DFI must update the registration information within 45 days following any change to the information previously provided, and must verify all registration information at least annually.*

*The National Association will make registered contact information available, via secure means, only to (a) registered Participating DFIs; (b) ACH Operators; and (c) Associations, for purposes of addressing ACH operational, fraud, and risk management issues within the ACH Network. The National Association will use registered contact information only for purposes of ACH Network operational, risk and fraud management.*

*Participating DFIs, ACH Operators, and Associations accessing registered contact information agree that they will use such information solely for their own, internal use for the purposes permitted in this Subsection.*

*As approved November 19, 2019, effective August 1, 2021, the Rules will be amended as follows for changes related to ACH Contact Registry:*

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## APPENDIX NINE

### Rules Enforcement

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## **PART 9.3 ODFI Registration Requirements**

### **PART 9.3 Participating DFI Registration Requirements**

#### **SUBPART 9.3.1 Direct Access Registration**

If, in its sole discretion, the National Association believes that an ODFI has failed to register its Direct Access Debit Participant status, or to provide data reporting regarding a Direct Access Debit Participant, the National Association may initiate a rules enforcement proceeding. Such proceeding will be according to Part 9.4 (National System of Fines) of this Appendix Nine for a Class 2 Rules Violation, as defined within Subpart 9.4.7.4 (Class 2 Rules Violation).

#### **SUBPART 9.3.2 Third-Party Sender Registration**

If, in its sole discretion, the National Association believes that an ODFI has failed to register or provide other required information for a Third-Party Sender, the National Association may initiate a rules enforcement proceeding. Such proceeding will be according to Part 9.4 (National System of Fines) of this Appendix Ten for a Class 2 Rules Violation, as defined within Subpart 9.4.7.4 (Class 2 Rules Violation).

#### **SUBPART 9.3.3 Participating DFI Contact Registration (new subsection)**

*If, in its sole discretion, the National Association believes that a Participating DFI has failed to register its contact information as required by Subsection 1.14 (Participating DFI Contact Registration), the National Association may initiate a rules enforcement proceeding. Such proceeding will be according to Part 9.4 (National System of Fines) of this Appendix Nine for a Class 2 Rules Violation, as defined within Subpart 9.4.7.4 (Class 2 Rules Violation).*

#### **SUBPART 9.4.7 Fines and Penalties**

##### **SUBPART 9.4.7.4 Class 2 Rules Violation**

A Class 2 Rules Violation is one in which:

- (1) the Participating DFI has not responded to either the Notice of Possible ACH Rules Violation or the Notice of Possible Fine;
- (2) the Participating DFI responds to either notice that it does not intend to correct the rules violation;
- (3) the Participating DFI
  - (i) fails to respond completely and accurately, within the proper time frame, to the National Association's request for information in accordance with the requirements of Article Two, Subsection 2.17.2 (ODFI Return Rate Reporting);
  - (ii) fails to reduce the Originator's or Third-Party Sender's Unauthorized Entry Return Rate below the Unauthorized Entry Return Rate Threshold within 30 days of receipt of the National Association's written request;

- (iii) successfully reduces the Unauthorized Entry Return Rate below the Unauthorized Entry Return Rate Threshold within the 30-day time period, but fails to maintain the Unauthorized Entry Return Rate below the Unauthorized Entry Return Rate Threshold for 180 additional days. The Panel may consider the Originator's or Third-Party Sender's volume of debit Entries as an extenuating circumstance in determining whether a violation under this provision constitutes a Class 2 Rules Violation;
- (iv) fails to reduce the Administrative Return Rate or Overall Return Rate of an Originator or Third-Party Sender below the applicable Return Rate Level within 30 days after receipt of the written directive; or
- (v) successfully reduces the Administrative Return Rate or Overall Return Rate of an Originator or Third-Party Sender below the applicable Return Rate Level within 30 days after receipt of a written directive, but fails to maintain the rate below the applicable Return Rate Level for 180 additional days;
- (4) the Participating DFI fails to register its Direct Access Debit Participant status or provide data reporting on a Direct Access Debit Participant, as required by Article Two, Subsection 2.17.1 (Direct Access Registration);
- (5) the Participating DFI fails to register a Third-Party Sender(s) with the National Association, or provide other required information, as required by Article Two, Subsection 2.17.3 (Third-Party Sender Registration);
- (6) *the Participating DFI fails to register its contact information, as required by Subsection 1.14 (Participating DFI Contact Information);*
- (7) the Participating DFI fails to provide the National Association with proof of completion of its own, its Third-Party Service Provider's, or its Third-Party Sender's rules compliance audit, as required by Appendix One, Subsection 1.2.2.2 (Proof of Completion of Audit);
- (8) the ACH Rules Enforcement Panel determines the time frame and resolution date asserted by a Participating DFI as necessary to resolve the problem causing the rules violation are excessive;
- (9) the National Association believes that the violation causes excessive harm to one or more Participating DFIs or the ACH Network; or
- (10) it is the fourth or subsequent recurrence of the same rules violation in which the most recent recurrence occurs within one year of the resolution date of the immediately preceding recurrence.

In situations involving a Class 2 Rules Violation, the ACH Rules Enforcement Panel may levy a fine against the respondent Participating DFI in an amount up to \$100,000 per month until the problem is resolved. Where the violation relates to a specific Originator or Third-Party Service Provider at the DFI, a separate monthly fine may be assessed to the DFI with respect to each such Originator or Third-Party Service Provider.

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## **Effective Date of New Same Day ACH Window**

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### **SUMMARY**

The March 19, 2021 effective date of the new Same Day ACH processing window is confirmed.

### **DISCUSSION**

Nacha Rules Ballot #1-2018, Expanding Access to Same Day ACH, provided for the creation of a third, daily Same Day ACH processing window to be established by the ACH Operators. The rule was approved on September 13, 2018.

The rule provided that the effective date was contingent on receiving notification from the Federal Reserve Board of Governors (“Fed Board”) of changes to Federal Reserve services necessary to support the new Same Day ACH processing window. On December 23, 2019, the Fed Board issued a public notice that provides for these services, also to become effective on March 19, 2021<sup>1</sup>.

Please refer to the 2020 Nacha Operating Rules for detailed information on this rule.

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<sup>1</sup>See <https://www.federalreserve.gov/newsevents/pressreleases/other20191223a.htm>



**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
R83	Foreign Receiving DFI Unable to Settle	The IAT Entry is being returned due to settlement problems in the foreign payment system.	Gateway	Return	Consumer or Non-Consumer	* 2 Banking Days	No		For Gateway use with Outbound IAT entries only.

\* 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.



April 14, 2020

## **2020 NACHA OPERATING RULES ERRATA #1-2020**

Following is a correction to the text of the 2020 edition of the Nacha Operating Rules. Please be sure to note this correction within your copy of the Rules to ensure its accuracy:

- **OR157: Table of Return Reason Codes, Part 4.2** – Due to an editing error, Return Reason Code R83 was omitted from the Table of Return Reason Codes. The missing code and its attributes appear on the following page.

If you have any questions or need additional information regarding this correction, please contact your Nacha's Network Rules Department at (703) 561-1100.



April 14, 2020

TO: Direct Financial Institution Members  
Regional Payment Association Members  
ACH Operators  
Software Information Exchange

FROM: NACHA Network Rules

RE: 2020 Nacha Operating Rules – Supplement #2-2020 and Errata #1-2020

**FOR YOUR INFORMATION**

Supplement #2-2020 contains changes to the effective dates of the rule for Supplementing Data Security Requirements. Please see the attached supplement for details on this update.

Due to an editing error, Return Reason Code R83 was omitted from the Table of Return Reason Codes in the 2020 Nacha Operating Rules. The missing code and its attributes appear in Errata #1-2020.

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Attachments



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NOTICE OF AMENDMENT  
TO THE  
2020 NACHA OPERATING RULES

April 14, 2020  
SUPPLEMENT #2-2020

1. Effective Date of Supplementing Data Security Requirements
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# Supplement #2-2020 to the Nacha Operating Rules

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Supplement #2-2020 contains changes to the Effective Dates of the Rule for Supplementing Data Security Requirements.

To ensure compliance with the most current rules, this supplement should be used in conjunction with the 2020 edition of the Nacha Operating Rules.

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## **Supplementing Data Security Requirements**

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### **SUMMARY**

The upcoming effective dates of the Rule on Supplementing Data Security Requirements are extended by one year, to June 30, 2021 and June 30, 2022, respectively.

### **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 is a supplement to the existing Rules on data security. Under the new Rules, ACH Originators and third-parties will be required to further protect account information while at rest.

In response to requests from some covered parties for additional time to come into compliance with the Rule requirements, Nacha is extending each of the two effective dates by one year:

- Phase 1 of the Rule, which applies to ACH Originators and Third-Parties with more than 6 million ACH payments annually, is now effective on June 30, 2021.
- Phase 2 of the Rule, which applies to ACH Originators and Third-Parties with more than 2 million ACH payments annually, is now effective on June 30, 2022.

Covered parties are urged to become compliant with the new Rule as soon as circumstances permit, but no later than these new effective dates.

Please refer to the 2020 Nacha Operating Rules for detailed information on the Supplementing Data Security Requirements Rule.



December 1, 2020

TO: Direct Financial Institution Members  
Payments Association Members  
ACH Operators  
Software Information Exchange

FROM: Nacha Network Rules

RE: 2020 Nacha Operating Rules – Supplement #3-2020

### **FOR YOUR INFORMATION**

On September 30, 2020, Nacha's Voting Membership approved eight amendments to the Nacha Operating Rules (Rules), covering the following topics:

- Limitation on Warranty Claims
- Reversals
- Enforcement
- Meaningful Modernization
  - Standing Authorizations
  - Oral Authorizations
  - Other Authorization Issues
  - Alternative to Proof of Authorization
  - Written Statement of Unauthorized Debit via Electronic or Oral Methods

The effective dates for these amendments range from January 1, 2021, through September 17, 2021. Please see the supplement for details and the effective date of each rule change.

Supplement #3-2020 also contains the 2021 ACH Network Administration Fees as approved by Nacha's Board of Directors. The new fee schedule is effective January 1, 2021.

To ensure compliance with the most current rules, this supplement should be used in conjunction with the 2020 edition of the Nacha Operating Rules.

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Attachment





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NOTICE OF AMENDMENT  
TO THE  
2020 NACHA OPERATING RULES

December 1, 2020  
SUPPLEMENT #3-2020

1. Limitation on Warranty Claims

*Effective Date: June 30, 2021*

2. Reversals

*Effective Date: June 30, 2021*

3. Enforcement

*Effective Date: January 1, 2021*

4. Meaningful Modernization

*Effective Date: September 17, 2021*

5. Network Administration Fees

*Effective Date: January 1, 2021*

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# Supplement #3-2020 to the Nacha Operating Rules

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On September 30, 2020, the Nacha Voting Membership approved eight amendments to the Nacha Operating Rules covering the following topics:

Limitation on Warranty Claims

Reversals

Enforcement

Meaningful Modernization

- Standing Authorizations
- Oral Authorizations
- Other Authorization Issues
- Alternative to Proof of Authorization
- Written Statement of Unauthorized Debit via Electronic or Oral Methods

The effective dates for these amendments range from January 1, 2021 through September 17, 2021. Please see each Rule change for its specific effective date.

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, use this Supplement in conjunction with the 2020 edition of the Nacha Operating Rules.

Supplement #3-2020 also contains the 2021 Network Administration Fees, as approved by Nacha's Board of Directors. The new fee schedule is effective January 1, 2021.

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## Limitation on Warranty Claims

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### SUMMARY

Under the current Nacha Rules, an ODFI warrants that an ACH entry has been properly authorized by the Receiver. The Rules allow extended returns for unauthorized entries for limited periods, but do not establish a time limit on the ODFI's warranties. That time limit is determined by statutes of limitations, which vary from state to state, and can be as long as ten years.

The Limitation on Warranty Claims Rule (the Rule) will limit the length of time an RDFI is permitted to make a claim against the ODFI's authorization warranty.

For an entry to a non-consumer account, an RDFI may make a claim for one year from the Settlement Date of the entry. This time frame is analogous to the one-year rule in UCC 4-406 that applies to checks and items charged to bank accounts.

For an entry to a consumer account, the limit will cover two time periods:

1. The RDFI may make a claim for two years from the Settlement Date of the Entry. This time period is longer than the one-year period in EFTA and allows for additional time for extenuating circumstances.

(In other words, the RDFI can make a claim for unauthorized debits settling within the most recent two years from the date of the RDFI's claim.)

2. Additionally, an RDFI may make a claim for entries settling within 95 calendar days from the Settlement Date of the first unauthorized debit to a consumer account. The 95-day time period is designed to allow RDFIs to make claims for all cases where they may be liable to their consumer customers under Regulation E, which requires a consumer to report unauthorized transfers within 60 days of the financial institution's transmittal of a statement to avoid liability for subsequent transfers.

The Rule addresses a friction point for many ACH participants by establishing a more equitable allocation of liability. Originators will know there is a standard length of time that they will face claims for allegedly unauthorized Entries. ODFIs will have greater certainty regarding the long-term return of transactions and the associated credit risk. RDFIs will have greater clarity regarding situations in which claims are allowed and will be able to establish reasonable expectations with their customers.

### IMPACT TO PARTICIPANTS

*Originators and ODFIs:* Originators and ODFIs should see a reduction in claims that fall outside the time periods established by the new Rule, and may see liability for some older transactions shift to RDFIs and Receivers.

*RDFIs:* RDFIs should examine their processes for handling claims for unauthorized transactions. They may need to make changes to ensure that they only claim entries settling within the time periods permissible under the Rules.

*Receivers:* Receivers should review their statements and report unauthorized activity in a timely manner.

### EFFECTIVE DATE

The Rule will be effective on June 30, 2021.

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## TECHNICAL SUMMARY

Below is a summary of the impact of the Limitation on Warranty Claims rule on the Nacha Operating Rules. Sections of the Rules that are affected by this amendment are also included and reflect rule language as it will read upon implementation in highlighted, italicized text.

- *Article One, Section 1.15 (Limitation of Claims Based on Unauthorized Entries)* – New section establishes the limitation on warranty claims for consumer and non-consumer accounts.

*As approved September 30, 2020, effective June 30, 2021, the Rules will be amended as follows for changes related to the Limitation on Warranty Claims:*

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### ARTICLE ONE

### General Rules

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#### **SECTION 1.15 Limitation of Claims Based on Unauthorized Entries (new section)**

*Except as provided in this Section 1.15, an RDFI shall not initiate a lawsuit, claim, action, or proceeding against an ODFI for a violation, breach of warranty, or indemnity under the Rules with respect to an allegation that an Entry was unauthorized if it has been (a) more than two years after the Settlement Date of an Entry to a Consumer Account, or (b) more than one year after the Settlement Date of an Entry to a Non-Consumer Account. This Section 1.15 does not prohibit an RDFI from initiating a lawsuit, claim, action, or proceeding against an ODFI for an alleged breach of warranty, as defined in Subsection 2.4.1.1 (The Entry is Authorized by the Originator and Receiver) or indemnity therefore pursuant to Subsection 2.4.5.1 (Indemnity for Breach of Warranty), with respect to allegedly unauthorized debit Entries to a Consumer Account that settle within 95 calendar days of the Settlement Date of the first such unauthorized Entry to the Consumer's Account.*

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## Reversals

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### SUMMARY

Currently, the Rules define a limited number of permissible reasons for Reversing Entries; however, they do not explicitly address improper uses of reversals. The Reversals Rule will specifically state that the initiation of Reversing Entries or Files for any reason other than those explicitly permissible under the Rules is prohibited. The Reversals Rule will also explicitly define within the Rules non-exclusive examples of circumstances in which the origination of Reversals is improper. Specifically:

- The initiation of Reversing Entries or Files because an Originator or Third-Party Sender failed to provide funding for the original Entry or File; and
- The initiation of a Reversing Entry or File beyond the time period permitted by the Rules.

The Reversals Rule will also:

- Establish additional formatting requirements for reversals in which the Company ID/Originator ID, SEC Code and Amount fields of the Reversing Entry must be identical to the original entry. The Rule will also require the name of the Originator to reflect the same Originator identified in the Erroneous Entry to which the Reversal relates. (Minor variations to the Originator's name will be permissible for accounting or tracking purposes as long as the name remains readily recognizable to the Receiver.) The contents of other fields may be modified only to the extent necessary to facilitate proper processing of the reversal.
- Explicitly permit an RDFI to return an improper reversal. Upon receiving a consumer claim, an RDFI may return an improper Reversing Entry using Return Reason Code R11. The RDFI will need to obtain a Written Statement of Unauthorized Debit from the consumer Receiver and return the entry in such time that it is made available to the ODFI no later than the opening of business on the banking day following the sixtieth (60th) calendar day following the Settlement Date of the improper Reversing Entry.

An RDFI may return an improper Reversing Entry to a Non-Consumer account by using Return Reason Code R17. These returns will need to be made in such time as 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 improper Reversing Entry. RDFIs will also be permitted to use R17 to return an improper reversal that it identifies without customer contact within the same 2-day return timeframe.

- Expand the permissible reasons for a Reversing Entry to include an error in the effective entry date. These will include the reversal of a debit entry that was for a date earlier than intended by the Originator and the reversal of a credit entry that was for a date later than intended by the Originator.

### IMPACT TO PARTICIPANTS

*Originators, Third-Party Senders, ODFIs:* Originators, Third-Party Senders and ODFIs may want to review their practices, policies and controls regarding the proper use and formatting of reversals.

*RDFIs:* RDFIs that want to take advantage of the return process should review policies and practices to facilitate the return of an improper reversal.

## EFFECTIVE DATE

The Reversal Rule will become effective on June 30, 2021.

## TECHNICAL SUMMARY

Below is a summary of the impact of the Reversals Rule on the Nacha Operating Rules. Sections of the Rules that are affected by this amendment are also included and reflect rule language as it will read upon implementation in highlighted, italicized text.

- *Article Two, Section 2.9.1 (General Rule for Reversing Entries)* – Clarifies that an ODFI may originate a Reversing Entry as well as an Originator. Updated to include the new reason of an incorrect effective entry date.
- *Article Two, Subsection 2.9.2 (Formatting Requirements for Reversing Entries)* – New subsection to address new formatting requirements.
- *Article Two, Subsection 2.9.5 (Improper Reversing Entries)* – New subsection to provide examples of improper Reversing Entries.
- *Article Two, Subsection 2.12.5 (Correction of Entries Returned as R11 (Customer Advises Entry Not in Accordance with the Terms of the Authorization))* – Updated to state that improperly-initiated Reversing Files or Reversing Entries are not correctable.
- *Article Three, Subsection 3.12.2 (Debit Entry Not in Accordance with the Terms of the Authorization)* – Updated to include improperly-initiated reversals.
- *Article Three, Subsection 3.12.2.4 (Improperly-Initiated Reversal)* – New subsection to provide examples of improperly-initiated reversals.
- *Article Eight, Section 8.38 (Erroneous Entry)* – Updated to include an error related to an incorrect effective entry date.
- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* – “Amount” description updated to reflect new formatting requirements for reversals.
- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* – “Company Identification” description updated to reflect new formatting requirements for reversals.
- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* – “Company Name” description updated to reflect new formatting requirements for reversals.
- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* – “Originator Identification” description updated to reflect new formatting requirements for reversals.
- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* – “Originator Name” description updated to reflect new formatting requirements for reversals.
- *Appendix Four, Part 4.2 (Table of Return Reason Codes)* – Updated to reflect expanded uses of R11 and R17 to return improperly-initiated reversals.

*As approved September 30, 2020, effective June 30, 2021, the Rules will be amended as follows for changes related to Reversals:*

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## ARTICLE TWO

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

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#### SECTION 2.9 Reversing Entries

##### **SUBSECTION 2.9.1 General Rule for Reversing Entries**

An Originator may initiate a Reversing Entry to correct an Erroneous Entry previously initiated to a Receiver's account. The Reversing Entry must be Transmitted to the ACH Operator in such time as to be Transmitted or made available to the RDFI within five Banking Days following the Settlement Date of the Erroneous Entry.

*An Originator or ODFI may initiate a Reversing Entry to correct an Erroneous Entry previously initiated to a Receiver's account. The Reversing Entry must be Transmitted to the ACH Operator in such time as to be Transmitted or made available to the RDFI within five Banking Days following the Settlement Date of the Erroneous Entry.*

A debit Reversing Entry must not contain an Effective Entry Date that is earlier than the Effective Entry Date of the credit Entry to which it relates.

For this Section 2.9 and Subsection 2.12.2 (ODFI Request for Return) only, an Erroneous Entry is defined as an Entry that:

- (a) is a duplicate of an Entry previously initiated by the Originator or ODFI;
- (b) orders payment to or from a Receiver different than the Receiver intended to be credited or debited by the Originator;
- (c) orders payment in a dollar amount different than was intended by the Originator;
- (d) *orders payment of a debit Entry on a date earlier than the Receiver was intended to be debited by the Originator, or payment of a credit Entry on a date later than the Receiver was intended to be credited by the Originator; or*
- (e) is a credit PPD Entry satisfying each of the following criteria:
  - (i) the credit PPD Entry is for funds related to a Receiver's employment;
  - (ii) the value of the credit PPD Entry is fully included in the amount of a Check delivered to the same Receiver at or prior to the Receiver's separation from employment; and
  - (iii) the credit PPD Entry was Transmitted by the Originator prior to the delivery of the Check to the Receiver.

The Originator must make a reasonable attempt to notify the Receiver of the Reversing Entry and the reason for the Reversing Entry no later than the Settlement Date of the Reversing Entry. For a credit PPD Entry satisfying the criteria of Subsection 2.9.1(e) above, the Originator must notify the Receiver of the Reversing Entry at the time the Check is delivered to the Receiver.

**SUBSECTION 2.9.2 Formatting Requirements for Reversing Entries (new subsection)**

*The Originator or ODFI must submit a Reversing Entry within a batch that includes the word “REVERSAL” in the Company Entry Description field of the Company/Batch Header Record. The description “REVERSAL” must replace the original content of the Company Entry Description field transmitted in the original batch, including content otherwise required by these Rules.*

*For each Reversing Entry, the content of the following fields must remain unchanged from the original, erroneous Entry to which the Reversal relates:*

- *Standard Entry Class Code;*
- *Company Identification/Originator Identification; and*
- *Amount.*

*The name of the Originator (as identified in the Company Name field or the Originator Name field) must reflect the same Originator identified in the Erroneous Entry to which the Reversal relates. The Originator or ODFI may make minor variations to the original content of the Company Name field or Originator Name field, such as for accounting or tracking purposes, provided that the name of the Originator remains readily recognizable to the Receiver.*

*The content of other fields may be modified only as necessary to facilitate proper processing of the Reversing Entry.*

**SUBSECTION 2.9.5 Improper Reversing Entries (new subsection)**

*Situations that will be treated as improper uses of a Reversing Entry include, but are not limited to:*

- (a) *The initiation of a Reversing Entry for any reason other than those explicitly defined in Subsection 2.9.1 (General Rule for Reversing Entries);*
- (b) *The initiation of a Reversing Entry by an ODFI because its Originator or Third-Party Sender customer, or any downstream customer of its Third-Party Sender, failed to provide funding for the original Entry.*
- (c) *The initiation of a Reversing Entry beyond the time period permitted by Subsection 2.9.1 (General Rule for Reversing Entries).*

*Improperly-initiated Reversing Entries may be returned by the RDFI.*

**SECTION 2.12 Return Entries****SUBSECTION 2.12.5 Correction of Entries Returned as R11 (Customer Advises Entry Not in Accordance with the Terms of the Authorization)**

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;
- (b) the source document for an ARC, BOC, or POP Entry was ineligible for conversion; or



- (c) *the Reversing Entry or Reversing File was improperly initiated, as defined by Subsection 3.12.2.4 (Improperly-Initiated Reversal).*

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ARTICLE THREE

Rights and Responsibilities of RDFIs and Their Receivers

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**SECTION 3.12 Written Statement of Unauthorized Debit**

**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);
- (e) the Entry was improperly reinitiated, as defined by Subsection 3.12.2.3 (Improperly Reinitiated Debit Entries);  
or

- (f) *the Reversing Entry or Reversing File was improperly initiated, as defined by Subsection 3.12.2.4 (Improperly-Initiated Reversal).*

**SUBSECTION 3.12.2.4 Improperly-Initiated Reversal**

For purposes of this Section 3.12, a Reversing Entry or Reversing File is improper if it involves any of the following:

- (a) *The initiation of (i) a Reversing Entry for any reason other than those explicitly defined in Subsection 2.9.1 (General Rule for Reversing Entries), or (ii) a Reversing File for any reason other than those explicitly defined in Subsection 2.9.1 (General Rule for Reversing Entries) and Article Eight, Section 8.39 (Erroneous File);*
- (b) *The initiation of a Reversing Entry or a Reversing File by an ODFI because its Originator or Third-Party Sender customer, or any downstream customer of its Third-Party Sender, failed to provide funding for the original Entry to which the Reversal relates.*
- (c) *The initiation of a Reversing Entry or a Reversing File beyond the time periods permitted by these Rules.*

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ARTICLE EIGHT

Definitions of Terms Used in These Rules

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**SECTION 8.38 “Erroneous Entry”**

an Entry that (a) is a duplicate of an Entry previously initiated by the Originator or ODFI; (b) orders payment to or from a Receiver different than the Receiver intended to be credited or debited by the Originator; or (c) orders payment in a dollar amount different than was intended by the Originator.

*an Entry that (a) is a duplicate of an Entry previously initiated by the Originator or ODFI; (b) orders payment to or from a Receiver different than the Receiver intended to be credited or debited by the Originator; (c) orders payment in a dollar amount different than was intended by*

*the Originator; or (d) orders payment of a debit Entry on a date earlier than the Receiver was intended to be debited by the Originator, or payment of a credit Entry on a date later than the Receiver was intended to be credited by the Originator.*

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## APPENDIX THREE

### ACH Record Format Specifications

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#### PART 3.2 Glossary of ACH Record Format Data Elements

##### **SUBPART 3.2.2 Glossary of Data Elements**

**Amount:** 10 Positions – Entry Detail Record – Mandatory (ACK, ARC, BOC, CCD, CIE, DNE, ENR, IAT, MTE, POP, POS, PPD, RCK, SHR, TEL, TRC, WEB, XCK, refused ACK, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR); 12 Positions – Entry Detail Record – Mandatory (ADV)

The RDFI posts the amount to the appropriate account authorized by the Receiver. A zero Amount is acceptable only with specific Transaction Codes.

*ADV:* The Automated Accounting Advice contains a 12-position field to record the summary debit or credit amount.

*ACK, ATX, COR, DNE, ENR:* The value of this field is always zero.

*CCD, CTX:* For a zero dollar Entry, the value of this field must be zero.

*IAT:* The value of this field is always reflected in U.S. Dollars.

*REVERSALS:* *The amount of a Reversing Entry must be identical to the amount of the original, Erroneous Entry to which the Reversal relates.*

**Company Identification:** 10 Positions – Company/Batch Header Record – Mandatory (all batches except IAT); 10 Positions – Company/Batch Control Record – Required (all batches)

The Company Identification is an alphanumeric code used to identify an Originator. The Company Identification Field must be included on all Entries.

The Company ID may begin with an ANSI one-digit Identification Code Designator (ICD), followed by the Identification Number. The ANSI Identification Numbers and related ICDs are:

IRS Employer Identification Number (EIN) “1.”

Data Universal Numbering Systems (DUNS) “3.”

User Assigned Number “9.”

*CIE:* This field contains the bill payment service provider’s identification number.

*IAT:* For IAT Entries, the Company Identification Field within the Company/Batch Control Record must contain the information found within positions 41-50 (Originator Identification) of the IAT Company/Batch Header Record.

*MTE (Credits):* The ODFI is the company/Originator.

*WEB (Credits):* This field contains the identification code of the Person-to-Person (P2P) service provider identified in the Company Name field (ODFI or Third-Party Service Provider).

*REVERSALS: The Company Identification in a Reversing Entry must be identical to the original, Erroneous Entry to which the Reversal relates.*

**Company Name:** 16 Positions – Company/Batch Header Record – Mandatory (all batches except IAT)

This field identifies the source of the Entry and is used for descriptive purposes for the Receiver. Except as otherwise noted below, this field must contain the name by which the Originator is known to and readily recognized by the Receiver of the Entry.

In a transaction in which the Originator of a debit Entry is not the payee of the transaction (the party to which payment is ultimately being directed), the Company Name field of the debit Entry must contain the name by which the payee is known to and readily recognized by the Receiver of the Entry. In a transaction in which the Originator of a credit Entry is not the payor of the transaction (the party from which payment is ultimately being directed), the Company Name field of the credit Entry must contain the name by which the payor is known to and readily recognized by the Receiver of the Entry.

For Return Fee Entries, this field must contain the same name of the Originator as identified in the Company Name field of the underlying Entry. For a Return Fee Entry based on the return of a Check, the Company Name field must contain the name of the payee of the Check.

*ADV:* The ACH Operator is both the Originator and the ODFI. The ACH Operator originating the ADV File identifies itself by name in this field.

*ARC, BOC:* This field identifies the payee of the Eligible Source Document or the payee name indicated on the bill or invoice.

*CCD:* For a Health Care EFT Transaction, this field must contain the name of the Health Plan originating the Entry, or, where an organization is self-insured, the name of the organization’s third-party administrator that is recognized by the Health Care Provider and to which the Health Care Provider submits its claims.

*CIE:* This field contains the bill payment service provider’s name.

*MTE:* This field identifies the owner of the terminal where the transaction was initiated.

*POP, POS, SHR:* This field identifies the merchant with whom the Receiver initiated the transaction.

*RCK:* This field identifies the Originator of the RCK Entry, which is the original payee on the face of the Check.

*TRC:* This field identifies the name of the keeper.

*WEB:* For a Person-to-Person Entry, this field contains the P2P service provider’s name; the P2P service provider is either the ODFI or a Third-Party Service Provider.

*XCK:* This field must contain the words “CHECK DESTROYED” (left justified).

*REVERSALS: The name of the Originator must reflect the same Originator identified in the Erroneous Entry to which the Reversal relates. The Originator or ODFI of the Reversing Entry may make minor variations to the original content of the Company Name field, such as for accounting or tracking purposes, provided that the name of the Originator remains readily recognizable to the Receiver.*

**Originator Identification:** 10 Positions – Company/Batch Header Record – Mandatory (IAT, IAT Returns, IAT COR)

The Originator Identification is an alphanumeric code used to uniquely identify an Originator. For an Originator that is not a natural Person, this field must contain the IRS Taxpayer Identification Number (TIN) of the Originator identified in the Originator Name Field. For an Originator that is not a natural Person and is not established or organized under the laws of a state or the United States, this field must contain the account number belonging to the Originator (as identified in the Originator Name field) at the foreign financial institution. If this number exceeds nine characters, this field must contain the last nine characters of the account number belonging to the Originator at the foreign financial institution. If the foreign account number contains nine or fewer characters, the entire account number must be utilized.

The Originator Identification may be preceded by a one-digit alphanumeric code, as established between the ODFI and the Originator, for further identification of the Originator to the ODFI. When used, this code must appear in the first position of this field, followed by the Originator Identification, as defined above.

When the ODFI has a contractual relationship with a Third-Party Sender rather than the Originator itself, the value of this field may identify either the Originator or the Third-Party Sender.

*REVERSALS: The Originator Identification in a Reversing Entry must be identical to the original, Erroneous Entry to which the Reversal relates.*

**Originator Name:** 35 Positions – Addenda Record – Mandatory (IAT)

This field contains the name of the Originator of the transaction.

*REVERSALS: The name of the Originator must reflect the same Originator identified in the Erroneous Entry to which the Reversal relates. The Originator or ODFI of the Reversing Entry may make minor variations to the original content of the Originator Name field, such as for accounting or tracking purposes, provided that the name of the Originator remains readily recognizable to the Receiver.*

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## APPENDIX FOUR

### Return Entries

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#### **PART 4.2 Table of Return Reason Codes**

Please see the following pages for changes to the R11 and R17 Return Reason Codes.

**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	<b>Customer Advises Entry Not in Accordance with the Terms of the Authorization</b>	<p>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; notice was not provided; amount of the entry was not accurately obtained from the source document.</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; notice was not provided; amount of the entry was not accurately obtained from the source document; the Reversing Entry was improperly initiated by the Originator or ODFI.</i></p>	RDFI	Extended Return	Consumer; For ARC, BOC, POP, and IAT entries, may also be a Non-Consumer. See note for additional exceptions.	**60 Calendar Days	Yes	<p>Article Three, Subsection 3.12.2 - Debit Entry Not in Accordance with the Terms of the Authorization</p> <p><i>Article Three, Subsection 3.12.2.4 - Improperly-Initiated Reversal</i></p> <p>Article Three, Subsection 3.13 - RDFI May Rely on Standard Entry Class Codes</p> <p>Article Three, Subsection 3.4.1.1 - Rule Exception for CCD and CTX Entries to Consumer Accounts</p> <p>Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries</p> <p>Article Eight, Section 8.53 - Incomplete Transaction</p>	<p>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</p> <p>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.</p> <p>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.</p> <p>For ARC, BOC, and POP entries for which the source document has been presented for payment, use R37.</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 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
R17	File Record Edit Criteria/Entry with Invalid Account Number Initiated Under Questionable Circumstances File Record Edit Criteria/Entry with Invalid Account Number Initiated Under Questionable Circumstances/ Return of Improperly-Initiated Reversal	(1) Field(s) cannot be processed by RDFI; or (2) the Entry contains an invalid DFI Account Number (account closed/no account/unable to locate account/invalid account number) and is believed by the RDFI to have been initiated under questionable circumstances. <i>(1) Field(s) cannot be processed by RDFI; (2) the Entry contains an invalid DFI Account Number (account closed/no account/unable to locate account/invalid account number) and is believed by the RDFI to have been initiated under questionable circumstances; or (3) either the RDFI or Receiver has identified a Reversing Entry as one that was improperly initiated by the Originator or ODFI.</i>	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries. Appendix Three, Part 3.2 - Glossary of ACH Record Format Specifications	(1) Some fields that are not edited by the ACH Operator are edited by the RDFI. If the Entry cannot be processed by the RDFI, the field(s) causing the processing error must be identified in the Addenda Information field of the Return. (2) An RDFI may use Return Reason Code R17 to return an Entry that contains an invalid DFI Account Number and is believed by the RDFI to have been initiated under questionable circumstances. The RDFI must insert "QUESTIONABLE" within the first twelve positions of the Addenda Information field. The RDFI may include additional explanatory information within the remaining positions of this field. <i>(3) An RDFI may use Return Reason Code R17 to return a Reversing Entry that was improperly initiated by the Originator or ODFI.</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.</p> <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 Banking Day following the sixtieth calendar day following the Settlement Date of the original Entry.</p>									

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## Enforcement

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### SUMMARY

The Enforcement Rule is intended to deter and prevent activity that can cause significant harm to financial institutions and the ACH Network. This rule change will define an egregious violation within the context of rules enforcement as:

1. A willful or reckless action by a Participating DFI, Originator, Third-Party Service Provider, or Third-Party Sender; and
2. One that involves at least 500 Entries or involves multiple Entries in the aggregate amount of at least \$500,000.

The Enforcement Rule will allow the ACH Rules Enforcement Panel to determine whether a violation is egregious, and to classify whether an egregious violation is a Class 2 or Class 3 rules violation. The rule will expressly authorize Nacha to report Class 3 rules violations to the ACH Operators and to federal and state banking, consumer protection, and other appropriate regulators and agencies.

### IMPACT TO PARTICIPANTS

*ODFIs and RDFIs:* Participating DFIs should be aware of the changes to Nacha's enforcement capabilities. They should consider updating and educating their customers on the changes to and potential impacts of the enforcement process.

### EFFECTIVE DATE

The Enforcement Rule will become effective on January 1, 2021.

### TECHNICAL SUMMARY

Below is a summary of the impact of the Enforcement Rule on the Nacha Operating Rules. Sections of the Rules that are affected by this amendment are also included and reflect rule language as it will read upon implementation in highlighted, italicized text.

- *Appendix Nine, Part 9.1 (Scope)* – Updated to include egregious violations under the scope of the rules enforcement procedures.
- *Appendix Nine, Subpart 9.4.1 (Initiation of a Rules Enforcement Proceeding)* – Expanded to define egregious violations and provide Nacha with the authority to initiate rules enforcement proceedings for such violations.
- *Appendix Nine, Subpart 9.4.3 (Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association)* – Expanded to include egregious violations as a reason for Nacha to initiate a rules enforcement proceeding.
- *Appendix Nine, Subpart 9.4.4 (Assessment of Rules Enforcement Submission)* – Modified to include Class 3 Rules violations.
- *Appendix Nine, Subpart 9.4.4.1 (Notice of Possible ACH Rules Violation)* – Updated to exclude egregious violations from the notice process for first infractions of the Rules.
- *Appendix Nine, Subpart 9.4.6.2 (Responsibilities of Enforcement Panel)* – Expanded to add egregious violations to the list of issues over which the ACH Rules Enforcement Panel has final authority.
- *Appendix Nine, Subpart 9.4.7.4 (Class 2 Rules Violation)* – Modified to add egregious violations to the description of Class 2 Rules Violations.

- *Appendix Nine, Subpart 9.4.7.5 (Class 3 Rules Violation)* – Expanded to add egregious violation to the description of Class 3 violations and to state that Class 3 Rules Violations may result in a monthly fine to the ODFI for each offending Originator, Third-Party Service Provider, or Third-Party Sender.

*As approved September 30, 2020, effective January 1, 2021, the Rules will be amended as follows for changes related to Enforcement:*

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## APPENDIX NINE

### Rules Enforcement

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#### **PART 9.1 Scope**

Appendix Nine governs the rules enforcement procedures to be applied in the event of (1) an ACH rules violation, including a breach of warranty under these rules, filed against a Participating DFI by a Participating DFI or an ACH Operator that is a party to the transaction; (2) the identification of an Originator or Third-Party Sender with excessive return rates; or (3) the failure of a Participating DFI to comply with a direct obligation to the National Association, as defined by these Rules. This Appendix Nine also governs the procedures for the ACH Rules Enforcement Panel to determine whether an ODFI should be directed to reduce the Administrative Return Rate or Overall Return Rate of any Originator or Third Party-Sender.

*Appendix Nine governs the rules enforcement procedures to be applied in the event of (1) an ACH rules violation, including a breach of warranty under these rules, filed against a Participating DFI by a Participating DFI or an ACH Operator that is a party to the transaction; (2) the identification of an Originator or Third-Party Sender with excessive return rates; (3) the failure of a Participating DFI to comply with a direct obligation to the National Association, as defined by these Rules; or (4) an egregious violation (as defined in Subpart 9.4.1, below) of these Rules, filed by the National Association against the Participating DFI. This Appendix Nine also governs the procedures for the ACH Rules Enforcement Panel to determine whether an ODFI should be directed to reduce the Administrative Return Rate or Overall Return Rate of any Originator or Third Party-Sender.*

This Appendix Nine (1) defines the criteria under which a rules enforcement proceeding may be initiated for any violation of these Rules; and (2) establishes the parameters under which the National Association may undertake specific actions with respect to the monitoring and reporting of activity causing potential harm to Participating DFIs or the ACH Network.

The purpose of these enforcement mechanisms is to maintain the quality of ACH services and the satisfaction of Participating DFIs and their customers by promoting compliance with these rules and reducing the risks to Participating DFIs and their customers by limiting the number of unauthorized Entries.

#### **PART 9.4 National System of Fines**

##### ***SUBPART 9.4.1 Initiation of a Rules Enforcement Proceeding***

A rules enforcement proceeding may be initiated for any violation of these rules. A rules enforcement proceeding may be conducted by the National Association in response to an ACH rules violation, including a breach of warranty under these rules, filed against a Participating DFI. The complainant must be a Participating DFI or an ACH Operator that is party to the transaction. A rules enforcement proceeding initiated by a Participating DFI or an ACH Operator must comply with the requirements of Subpart 9.4.2 (Submission Requirements for Rules Enforcement Proceedings Initiated by a Participating DFI or an ACH Operator.) The Report of Possible ACH Rules Violation Form and filing instructions are located in the Nacha Operating Guidelines.



*A rules enforcement proceeding may be initiated for any violation of these rules. A rules enforcement proceeding may be conducted by the National Association in response to an ACH rules violation, including a breach of warranty under these Rules, filed against a Participating DFI by a Participating DFI or ACH Operator. The complainant must be a Participating DFI or an ACH Operator that is party to the transaction. A rules enforcement proceeding initiated by a Participating DFI or an ACH Operator must comply with the requirements of Subpart 9.4.2 (Submission Requirements for Rules Enforcement Proceedings Initiated by a Participating DFI or an ACH Operator.) The Report of Possible ACH Rules Violation Form and filing instructions are located in the Nacha Operating Guidelines.*

A rules enforcement proceeding may also be initiated and conducted by the National Association (1) as provided in Subpart 9.2.2.2 (National Association May Initiate a Rules Enforcement Proceeding); (2) in response to the National Association's reasonable belief that an ODFI, Originator, or Third-Party Sender has originated Entries without proper authorization in accordance with these Rules; or (3) in response to the failure of a Participating DFI to comply with a direct obligation to the National Association, as defined by these rules. The National Association may initiate a rules enforcement proceeding in accordance with clause (2) above on the basis of, and utilize in connection with such a proceeding, any information available to the National Association, including information received from Participating DFIs and ACH Operators.

*A rules enforcement proceeding may also be initiated and conducted by the National Association (1) as provided in Subpart 9.2.2.2 (National Association May Initiate a Rules Enforcement Proceeding); (2) in response to the National Association's reasonable belief that an ODFI, Originator, or Third-Party Sender has originated Entries without proper authorization in accordance with these Rules; (3) in response to the failure of a Participating DFI to comply with a direct obligation to the National Association, as defined by these Rules; or (4) in response to the National Association's belief that a Participating DFI, an Originator, a Third-Party Service Provider, or a Third-Party Sender has committed an egregious violation of the Rules. For purposes of this Appendix Nine, an "egregious violation" of the Rules is defined as one that (a) is caused by the willful or reckless action of the Participating DFI, Originator, Third-Party Service Provider, or Third-Party Sender, and (b) involves at least 500 Entries, or involves multiple Entries in the aggregate amount of at least \$500,000. The National Association may initiate a rules enforcement proceeding on the basis of, and utilize in connection with such a proceeding, any information available to the National Association, including information received from Participating DFIs and ACH Operators.*

A rules enforcement proceeding initiated by the National Association must comply with the requirements of Subpart 9.4.3 (Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association).

### **SUBPART 9.4.3 Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association**

Each rules enforcement proceeding initiated by the National Association must contain the following information and conform to the following requirements:

- A. a statement outlining the reason(s) for the initiation of a rules enforcement proceeding:
- (1) the ODFI failed, within the required time frame, to provide the National Association with complete and accurate information as required by Article Two, Subsection 2.17.2 (ODFI Return Rate Reporting);
  - (2) the information provided by the ODFI substantiates the claim that an Originator's or Third-Party Sender's Unauthorized Entry Return Rate exceeded the Unauthorized Entry Return Rate Threshold and the ODFI has failed to reduce the Originator's or Third-Party Sender's Unauthorized Entry Return Rate below the Unauthorized Entry Return Rate Threshold within 30 days after receipt of the National Association's written request in accordance with Article Two, Subsection 2.17.2.2 (Additional ODFI Action and Reporting When the Unauthorized Entry Return Rate Threshold Is Exceeded);
  - (3) the information provided by the ODFI substantiates that an Originator's or Third-Party Sender's Unauthorized Entry Return Rate exceeded the Unauthorized Entry Return Rate Threshold, and the ODFI successfully reduced the Unauthorized Entry Return Rate below the Unauthorized Entry Return Rate Threshold within

the 30-day time period, but the ODFI failed to maintain the Unauthorized Entry Return Rate below the Unauthorized Entry Return Rate Threshold for 180 additional days;

- (4) the ODFI received, following an inquiry, a written directive from the National Association, on behalf of the ACH Rules Enforcement Panel, to reduce an Originator's or Third-Party Sender's Administrative Return Rate and/or Overall Return Rate(s) below the Administrative Return Rate Level and/or Overall Return Rate Level, and failed to reduce the Administrative Return Rate and/or Overall Return Rate below the applicable Return Rate Level within 30 days after receipt of a written directive from the National Association on behalf of the ACH Rules Enforcement Panel in accordance with Article Two, Subsection 2.17.2.5 (Additional ODFI Action and Reduction of Administrative Return Rate and/or the Overall Return Rate When Directed by the ACH Rules Enforcement Panel);
- (5) the ODFI received, following an inquiry, a written directive from the National Association, on behalf of the ACH Rules Enforcement Panel, to reduce an Originator's or Third-Party Sender's Administrative Return Rate and/or Overall Return Rate(s) below the Administrative Return Rate Level and/or Overall Return Rate Level, and the ODFI successfully reduced the Administrative Return Rate and/or Overall Return Rate below the applicable Return Rate Level within the 30-day time period specified in Article Two, Subsection 2.17.2.5 (Additional ODFI Action and Reduction of Administrative Return Rate and/or Overall Return Rate When Directed by ACH Rules Enforcement Panel), but the ODFI failed to maintain the rate below the applicable Return Rate Level for 180 additional days;
- (6) the National Association's reasonable belief that an ODFI, Originator, or Third-Party Sender has originated Entries without proper authorization in accordance with these Rules;
- (7) the Participating DFI failed to comply with a direct obligation to the National Association, as defined by these rules; or
- (8) *the National Association's belief that a Participating DFI, an Originator, a Third-Party Service Provider, or a Third-Party Sender has committed an egregious violation of the rules, as defined in Subpart 9.4.1 (Initiation of a Rules Enforcement Proceeding). The National Association may submit an egregious violation of the rules as either a Class 2 or a Class 3 Rules Violation, as appropriate under the facts and circumstances.*

- B. for a rules enforcement proceeding initiated in response to a violation involving the Unauthorized Entry Return Rate Threshold or a Return Rate Level, according to Part 9.2 (ODFI Reporting Requirements) of this Appendix Nine, a copy of the National Association's written request for information according to Subpart 9.2.1 (National Association Request for Information) of this Appendix Nine.

A rules enforcement proceeding initiated by the National Association must be submitted within 90 days of the occurrence of the rule violation(s) asserted.

**SUBPART 9.4.4 Assessment of Rules Enforcement Submission**

Each submission of a rules enforcement proceeding will be evaluated by the National Association to ensure that the documentation necessary to identify the incident has been included and to determine whether a violation of these rules appears to have occurred. If the National Association makes a preliminary determination that a violation of these rules has occurred, the National Association will identify whether the violation is (1) the first such violation, (2) a Class 1 Rules Violation involving a recurrence of a previous violation, or (3) a Class 2 Rules Violation, and it will issue either a Notice of Possible ACH Rules Violation or a Notice of Possible Fine in accordance with this Subpart 10.4.4. If the National Association determines that it is unclear whether a rules violation has occurred, or if the National Association believes the violation involves a Class 2 Rules Violation, it may forward the issue to the ACH Rules Enforcement Panel for additional review.

*Each submission of a rules enforcement proceeding will be evaluated by the National Association to ensure that the documentation necessary to identify the incident has been included and to determine whether a violation of these rules appears to have occurred. If the National Association makes a preliminary determination that a violation of these rules has occurred, the National Association will identify whether the violation is (1) the first such violation, (2) a Class 1 Rules Violation involving a recurrence of a previous violation, (3) a Class 2 Rules Violation, or (4) a Class 3 Rules Violation, and it will issue either a Notice of Possible ACH Rules Violation or a Notice of Possible Fine in accordance with this Subpart 9.4.4. If the National Association determines that it is unclear whether a rules violation has occurred, or if the National Association believes the violation involves a Class 2 Rules Violation or a Class 3 Rules Violation, it may forward the issue to the ACH Rules Enforcement Panel for additional review.*

In circumstances involving (1) a submission to the rules enforcement process from a Participating DFI or an ACH Operator that is a party to a transaction, identifying either a Class 1 Rules Violation or a Class 2 Rules Violation; or (2) a rules enforcement proceeding initiated by the National Association because of a Class 2 Rules Violation, the issue will be forwarded directly to the ACH Rules Enforcement Panel for evaluation and possible assessment of a fine or penalty in accordance with Subpart 9.4.7 (Fines and Penalties).

*In circumstances involving (1) a submission to the rules enforcement process from a Participating DFI or an ACH Operator that is a party to a transaction, identifying either a Class 1 Rules Violation or a Class 2 Rules Violation; (2) a rules enforcement proceeding initiated by the National Association because of a Class 2 Rules Violation, or (3) a rules enforcement proceeding initiated by the National Association because of a Class 3 Rules Violation, the issue will be forwarded directly to the ACH Rules Enforcement Panel for evaluation and possible assessment of a fine or penalty in accordance with Subpart 9.4.7 (Fines and Penalties).*

#### **SUBPART 9.4.4.1 Notice of Possible ACH Rules Violation**

If the National Association determines that the violation is the first such infraction of these rules, a Notice of Possible ACH Rules Violation will be sent to the ACH Manager at the respondent Participating DFI, within ten Banking Days via traceable delivery method, indicating that an infraction of the rules appears to have occurred and explaining that fines may be imposed against the Participating DFI in the event that the rule violation is not corrected.

*If the National Association determines that the violation is the first such infraction of these Rules (other than an egregious violation, as defined in Subpart 9.4.1 (Initiation of a Rules Enforcement Proceeding)), a Notice of Possible ACH Rules Violation will be sent to the ACH Manager at the respondent Participating DFI, within ten Banking Days via traceable delivery method, indicating that an infraction of the rules appears to have occurred and explaining that fines may be imposed against the Participating DFI in the event that the rule violation is not corrected.*

The Participating DFI will be asked to correct the problem that caused the rule violation and to respond within ten Banking Days after the date on which it received the Notice of Possible ACH Rules Violation. The Notice of Possible ACH Rules Violation Response Form must be sent, via traceable delivery method, to the National Association and must include either (1) an acknowledgment of the Participating DFI's recognition of and intent to correct the problem causing the rule violation, along with a statement specifying the date by which the Participating DFI will resolve the problem (resolution date), or (2) a statement, along with supporting documentation, that the Participating DFI does not believe that a rules infraction has occurred.

If the National Association receives the Participating DFI's completed response form and any necessary documentation within the ten Banking Day time frame, no additional action will be taken by the National Association unless (1) the National Association believes the time frame and resolution date asserted by a Participating DFI as necessary to resolve the problem causing the rules violation are excessive and require review by the ACH Rules Enforcement Panel, or (2) the National Association receives an additional submission of a rule violation report.

#### **SUBPART 9.4.6.2 Responsibilities of Enforcement Panel**

The ACH Rules Enforcement Panel, in accordance with these rules, is the final authority regarding each of these issues:

- the imposition of any fines or penalties recommended by the National Association;
- instances in which the National Association believes the time frames and Resolution Dates asserted by the respondent Participating DFI as necessary to resolve the problem causing a rules violation are excessive;
- instances in which the National Association believes an ODFI, Originator, or Third-Party Sender has originated Entries without proper authorization in accordance with these Rules;
- *instances in which the National Association believes the Participating DFI, Originator, Third-Party Service Provider, or Third-Party Sender has committed an egregious violation of the Rules;*
- instances in which the National Association believes an ODFI, Originator, or Third-Party Sender has attempted to evade the limitations on Reinitiation;
- instances in which the National Association recommends, after the inquiry process, that an ODFI be required to reduce an Originator's or Third-Party Sender's applicable return rate below the Administrative Return Rate Level and/or the Overall Return Rate Level;
- instances in which the National Association believes an ODFI, Originator, or Third-Party Sender has attempted to evade the \$100,000 per-Entry limitation on Same Day Entries;
- rules violations that the National Association believes constitute Class 1, Class 2, or Class 3 Rules Violations; and
- situations in which the National Association determines that it is unclear whether a rules violation has occurred.

**SUBPART 9.4.7 Fines and Penalties**

**SUBPART 9.4.7.4 Class 2 Rules Violation**

A Class 2 Rules Violation is one in which:

- (1) the Participating DFI has not responded to either the Notice of Possible ACH Rules Violation or the Notice of Possible Fine;
- (2) the Participating DFI responds to either notice that it does not intend to correct the rules violation;
- (3) the Participating DFI
  - (i) fails to respond completely and accurately, within the proper time frame, to the National Association's request for information in accordance with the requirements of Article Two, Subsection 2.17.2 (ODFI Return Rate Reporting);
  - (ii) fails to reduce the Originator's or Third-Party Sender's Unauthorized Entry Return Rate below the Unauthorized Entry Return Rate Threshold within 30 days of receipt of the National Association's written request;
  - (iii) successfully reduces the Unauthorized Entry Return Rate below the Unauthorized Entry Return Rate Threshold within the 30-day time period, but fails to maintain the Unauthorized Entry Return Rate below the Unauthorized Entry Return Rate Threshold for 180 additional days. The Panel may consider the Originator's or Third-Party Sender's volume of debit Entries as an extenuating circumstance in determining whether a violation under this provision constitutes a Class 2 Rules Violation;

- (iv) fails to reduce the Administrative Return Rate or Overall Return Rate of an Originator or Third-Party Sender below the applicable Return Rate Level within 30 days after receipt of the written directive; or
- (v) successfully reduces the Administrative Return Rate or Overall Return Rate of an Originator or Third-Party Sender below the applicable Return Rate Level within 30 days after receipt of a written directive, but fails to maintain the rate below the applicable Return Rate Level for 180 additional days;
- (4) the Participating DFI fails to register its Direct Access Debit Participant status or provide data reporting on a Direct Access Debit Participant, as required by Article Two, Subsection 2.17.1 (Direct Access Registration);
- (5) the Participating DFI fails to register a Third-Party Sender(s) with the National Association, or provide other required information, as required by Article Two, Subsection 2.17.3 (Third-Party Sender Registration);
- (6) the Participating DFI fails to register its contact information, as required by Subsection 1.14 (Participating DFI Contact Registration);
- (7) the Participating DFI fails to provide the National Association with proof of completion of its own, its Third-Party Service Provider's, or its Third-Party Sender's rules compliance audit, as required by Appendix One, Subsection 1.2.2.2 (Proof of Completion of Audit);
- (8) the ACH Rules Enforcement Panel determines the time frame and resolution date asserted by a Participating DFI as necessary to resolve the problem causing the rules violation are excessive;
- (9) the National Association believes that the violation causes excessive harm to one or more Participating DFIs or the ACH Network;
- (9) *the National Association believes that the violation causes excessive harm to one or more Participating DFIs or the ACH Network, including, but not limited to, situations in which the National Association believes that a Participating DFI, an Originator, a Third-Party Service Provider, or a Third-Party Sender has committed an egregious violation of the rules, as defined in Subpart 9.4.1 (Initiation of a Rules Enforcement Proceeding); or*
- (10) it is the fourth or subsequent recurrence of the same rules violation in which the most recent recurrence occurs within one year of the resolution date of the immediately preceding recurrence.

In situations involving a Class 2 Rules Violation, the ACH Rules Enforcement Panel may levy a fine against the respondent Participating DFI in an amount up to \$100,000 per month until the problem is resolved. Where the violation relates to a specific Originator or Third-Party Service Provider at the DFI, a separate monthly fine may be assessed to the DFI with respect to each such Originator or Third-Party Service Provider.

**SUBPART 9.4.7.5 Class 3 Rules Violation**

In any case where a Class 2 Rules Violation, as defined by Subpart 9.4.7.4 (Class 2 Rules Violation), has continued for three consecutive months, the ACH Rules Enforcement Panel may determine that the violation of these rules by a respondent Participating DFI is a Class 3 Rules Violation and may levy a fine against the respondent Participating DFI of up to \$500,000 per month until the problem causing the violation is resolved.

*A Class 3 Rules Violation is one in which:*

- (1) *a Class 2 Rules Violation, as defined by Subpart 9.4.7.4 (Class 2 Rules Violation), has continued for at least three consecutive months; or*
- (2) *the National Association believes that a Participating DFI, an Originator, a Third-Party Service Provider, or a Third-Party Sender has committed an egregious violation of the rules, as defined in Subpart 9.4.1 (Initiation of a Rules Enforcement Proceeding).*

*In situations involving a Class 3 Rules Violation, the ACH Rules Enforcement Panel may levy a fine against the respondent Participating DFI of up to \$500,000 per month until the problem causing the violation is resolved. Where the violation relates to more than one Originator, Third-Party Service Provider, or Third-Party Sender, a separate monthly fine may be assessed to the Participating DFI with respect to each Originator, Third-Party Service Provider, or Third-Party Sender.*

*A Participating DFI authorizes the National Association to report Class 3 Rules Violations to ACH Operators, and to federal and state banking, consumer protection, and other appropriate regulators and agencies.*

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## Meaningful Modernization

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The five amendments comprising Meaningful Modernization are designed to improve and simplify the ACH user experience by facilitating the adoption of new technologies and channels for the authorization and initiation of ACH payments; reducing barriers to use of the ACH Network; providing clarity and increasing consistency around certain ACH authorization processes; and reducing certain administrative burdens related to ACH authorizations.

Specifically, the five Rules will

- explicitly define the use of standing authorizations for consumer ACH debits;
- define and allow for oral authorization of consumer ACH debits beyond telephone calls;
- clarify and provide greater consistency of ACH authorization standards across payment initiation channels;
- reduce the administrative burden of providing proof of authorization; and
- better facilitate the use of electronic and oral Written Statements of Unauthorized Debit.

All Meaningful Modernization Rules will be effective September 17, 2021.

Due to the overlapping nature of the Meaningful Modernization modifications, some individual Rules sections are impacted by multiple amendments. Following the summaries and descriptions for each element is the Combined Changes to Authorization Requirements Resulting from Meaningful Modernization. The Combined Changes section shows consolidated text changes to the Rules and incorporates the technical impacts for all five of the Meaningful Modernization elements. New Rules language appears in italics with gray highlighting and follows the existing text that it replaces. Appendix A shows the technical summary for each individual Meaningful Modernization amendment.

## STANDING AUTHORIZATIONS

### **Summary**

The current authorization framework for consumer ACH debits encompasses recurring and single payments. Recurring payments occur at regular intervals, with no additional action required by the consumer to initiate the payment, and are for the same or a similar amount, for example, a monthly mortgage payment or utility bill. A single entry is a one-time payment, and can be between parties that have no previous relationship, such as in a purchase; or between parties that can have a relationship, but the payment is not recurring, such as single payment on a credit card account. ACH Originators that have, or want to use, a different model for ongoing commerce do not have specific rules for payments that are a hybrid, falling somewhere in between recurring and single entries. By defining a Standing Authorization, the Rule will fill the gap between single and recurring payments, and enable businesses and consumers to make more flexible payment arrangements for relationships that are ongoing in nature.

The Standing Authorizations Rule (the Rule) will define a standing authorization as an advance authorization by a consumer of future debits at various intervals. Under a Standing Authorization, future debits would be initiated by the consumer through further actions. The Rule will allow for Originators to obtain Standing Authorizations in writing or orally. The Rule also defines Subsequent Entries, which will be individual payments initiated based on a Standing Authorization. Subsequent Entries will be able to be initiated in any manner identified in the Standing Authorization.

The Rule will allow Originators some flexibility in the use of consumer Standard Entry Class (SEC) Codes for individual Subsequent Entries. Originators will be able to use the TEL or WEB SEC Codes for Subsequent Entries when initiated by either a telephone call or via the Internet/wireless network, respectively, regardless of how the Standing Authorization was obtained. In these cases, the Originator will not need to meet the authorization requirements of TEL or WEB, but will need to meet the risk management and security requirements associated with those SEC Codes.

In addition, the Rule will allow for optional formatting so an Originator may, at its discretion, identify an entry as having been originated under the terms of a Recurring, Single-Entry or Standing Authorization. The standard code values will be “R” for Recurring, “S” for Single-Entry, and “ST” for Standing Authorization. An Originator may choose to include these values in the Payment Type Code Field of a TEL or WEB entry or the Discretionary Data Field of a PPD entry. In order to accommodate this option, the Rule will remove the existing requirement that TEL and WEB entries must be identified as either Recurring or Single Entries, and will designate the Payment Type Code as an optional field. However, Originators may continue to use the Payment Type Code field to include any codes that are meaningful to them, including “R,” “S,” or “ST.”

### **Impact to Participants**

*Originators:* Originators may choose to use Standing Authorizations and Subsequent Entries, but will not be required to do so. Those Originators that want to use this authorization method may need to modify or add to their authorization practices and language.

*ODFIs:* Since some volume of Subsequent Entries may have a different SEC Code than under the existing rules, ODFIs should prepare for a potential impact on the application of risk management practices specific to SEC Codes and on the tracking of SEC Code volume, returns and return rates.

## **ORAL AUTHORIZATIONS**

### **Summary**

Currently, the authorization language in the Nacha Operating Rules does not provide for oral authorizations of an ACH payment outside of a telephone call. Only the Telephone-Initiated Entry (TEL) Standard Entry Class Code has requirements to address the risks specific to an oral authorization. The Oral Authorizations rule (the Rule) will define and allow Oral Authorizations as a valid authorization method for consumer debits distinct from a telephone call. Enabling the broader use of Oral Authorizations will allow businesses to adopt ACH payments in transactional settings that make use of verbal interactions and voice-related technologies. The Rule will not change how existing TEL transactions are used and authorized.

Under the Rule, any oral authorization obtained via any channel will need to meet the requirement of an Oral Authorization. An Oral Authorization obtained over the Internet that is not a telephone call also will need to meet the risk and security requirements that currently apply to Internet-Initiated/Mobile (WEB) Entries, and will use the WEB Standard Entry Class Code. The Rule will allow for Standing Authorizations to be obtained orally. In addition, the Rule will allow for Subsequent Entries initiated under a Standing Authorization to be initiated through voice commands, instructions, or affirmations.

### **Impact to Participants**

*Originators:* Originators may choose to use the expanded applicability of Oral Authorizations, but will not be required to do so. Those Originators that want to use Oral Authorizations will need to modify or add to their authorization practices and language to ensure they meet all of the requirements for Oral Authorizations. Originators may find that their digital storage needs will be impacted by using Oral Authorizations.

*ODFIs:* Since some volume of existing TEL volume may migrate to WEB, ODFIs should prepare for a potential impact on the application of risk management practices specific to SEC Codes and on the tracking of SEC Code volume, returns and return rates.

*RDFIs:* RDFIs should have no impacts to their receipt and posting of entries.



## OTHER AUTHORIZATION ISSUES

### Summary

In conjunction with the rules on Standing Authorizations and Oral Authorizations, Meaningful Modernization includes the Other Authorization Issues rule (the Rule), which covers other modifications and re-organizations of the general authorization rules for clarity, flexibility and consistency.

#### Clarity

- The Rule will re-organize the general authorization rules to better incorporate Standing Authorizations, Oral Authorizations, and other changes.
- The Rule will define “Recurring Entry” to complement the existing definition of Single Entry and the new definition of Subsequent Entry and to align with term in Regulation E.

#### Flexibility

- The Rule will explicitly state that authorization of any credit entry to a consumer account and any entry to a non-consumer account can be by any method allowed by law or regulation. Only consumer debit authorizations require a writing that is signed or similarly authenticated.

#### Consistency

- The Rule will apply the standards of “readily identifiable” and “clear and readily understandable terms” to all authorizations.
- The Rule will apply the minimum data element standards that are currently stated only in the rules for Telephone-Initiated Entries for all consumer debit authorizations.

### Impact to Participants

*Originators and ODFIs:* Originators and ODFIs may need to review authorizations to ensure they meet the standards of “readily identifiable” and “clear and readily understandable terms.” These participants may also need to review and revise consumer debit authorization language to ensure that it includes the minimum data elements.

*RDFIs:* RDFIs should have no impacts to their receipt and posting of entries.

## ALTERNATIVE TO PROOF OF AUTHORIZATION

### Summary

Under the current Rules, an Originator is required to provide proof of authorization to its ODFI in such time that the ODFI can respond to an RDFI request for proof of authorization within ten banking days. Some ODFIs and Originators report that a “pain point” occurs when they provide proofs of authorization, but then debits are returned as unauthorized. To avoid this issue, some ODFIs and Originators would prefer to agree to accept the return of the debit rather than expend the time and resources necessary to provide proof of authorization.

The Alternative to Proof of Authorization rule (the Rule) will reduce an administrative burden on ODFIs and their Originators for providing proof of authorization in every instance in which it is requested by an RDFI. By allowing an alternative, the Rule is intended to help reduce the costs and time needed to resolve some exceptions in which proof of authorization is requested. However, if the RDFI still needs proof of authorization, the ODFI and its Originator must provide the proof of authorization within ten days of the RDFI’s subsequent request.

### Impact to Participants

*Originators and ODFIs:* Originators and ODFIs that want to take advantage of the Rule may have to modify their business processes.

*RDFIs:* RDFIs may receive different responses to their request for proof of authorizations. RDFIs will need to develop practices and procedures to send subsequent requests for proofs of authorization in cases where a copy is still needed when ODFI has agreed to accept the return in lieu of providing the copy.

## **WRITTEN STATEMENT OF UNAUTHORIZED DEBIT VIA ELECTRONIC OR ORAL METHODS**

### ***Summary***

Under the Rules, an RDFI is responsible for obtaining a consumer's Written Statement of Unauthorized Debit (WSUD) prior to returning a debit as unauthorized. However, the current Rules do not explicitly address electronically or orally provided WSUDs. Instead, the Rules explicitly allow electronic records and electronic signatures generally, which has resulted in confusion about the electronic or oral acceptance of WSUDs. Anecdotal evidence suggests that the significant majority of WSUDs are still being obtained via paper using a wet signature.

The Written Statement of Unauthorized Debit via Electronic or Oral Methods rule (the Rule) will reduce an administrative burden on RDFIs and their customers. The Rule clarifies and makes explicit that an RDFI may obtain a consumer's WSUD as an Electronic Record, and an RDFI may accept a consumer's Electronic Signature, regardless of its form or the method used to obtain it. These changes will emphasize that WSUDs may be obtained and signed electronically, which could include the same methods permissible for obtaining a consumer debit authorization.

### ***Impact to Participants***

*ODFIs:* ODFIs that request copies of WSUDs might receive these documents in various formats.

*RDFIs:* RDFIs that want to take advantage of accepting WSUDs by electronic and oral forms will need to incorporate new procedures and technology. These RDFIs will need to be able to meet the requirement to provide a copy of the WSUD upon request.

## Combined Changes to Authorization Requirements Resulting from Meaningful Modernization

This section shows consolidated text changes to the Rules and incorporates the technical impacts for all five of the Meaningful Modernization elements. New Rules language appears in italics with gray highlighting.

### ARTICLE TWO

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

### **SECTION 2.3 Authorization and Notice of Entries (this section will be revised and replaced)**

#### ***SUBSECTION 2.3.1 General Rule – Originator Must Obtain Authorization from Receiver***

An Originator must obtain authorization from the Receiver to originate one or more Entries to the Receiver's account.

#### ***SUBSECTION 2.3.2 Authorizations and Notices with Respect to Consumer Accounts***

##### ***SUBSECTION 2.3.2.1 Credit Entries***

Authorization of a credit Entry to a Consumer Account is not required to be in writing. If both the Originator and Receiver are natural Persons, no authorization by the Receiver is required, and no warranty with respect to any such authorization is made by the ODFI.

##### ***SUBSECTION 2.3.2.2 Debit Entries***

- (a) Authorization of a debit Entry to a Consumer Account must be in writing and signed or similarly authenticated by the Receiver, except as expressly provided in the authorization sections of these Rules for specific types of Entries. Where these Rules provide that authorization for an Entry may be obtained by notice to the Receiver, authorization also may be obtained by means of a signed written authorization that meets the requirements of Subsection 2.3.2.3 (Form of Authorization) if all of the other requirements for the type of Entry are met.
- (b) An Originator must provide each Receiver with an Electronic or hard copy of the Receiver's authorization for all debit Entries to be initiated to a Consumer Account.

##### ***SUBSECTION 2.3.2.3 Form of Authorization***

An authorization must:

- (a) be readily identifiable as an authorization;
- (b) have clear and readily understandable terms. A purported authorization that is not clear and readily understandable as to its terms (including the amount or timing of debits), or that is otherwise invalid under applicable Legal Requirements, does not satisfy the requirements of this Section 2.3; and
- (c) provide that the Receiver may revoke the authorization only by notifying the Originator in the time and manner stated in the authorization. For a Single Entry scheduled in advance, any such revocation right shall afford the Originator a reasonable opportunity to act on such revocation prior to the initiation of the Entry.

**SUBSECTION 2.3.2.4 Electronic Authorizations**

The writing and signature requirements of Subsection 2.3.2.2(a) (Authorization and Notices with Respect to Consumer Accounts – Debit Entries) may be satisfied by compliance with the Electronic Signatures in Global and National Commerce Act (15 U.S.C. §7001 et seq.). An Electronic authorization must be visually displayed in a manner that enables the consumer to read the communication.

**SUBSECTION 2.3.2.5 Retention and Provision of the Record of Authorization**

- (a) An Originator must retain the original or a copy of each written authorization of a Receiver, or a readily and accurately reproducible Record evidencing any other form of authorization, for two years from the termination or revocation of the authorization.
- (b) Upon receipt of an RDFI's written request, the ODFI must provide the original, copy or other accurate Record of the Receiver's authorization to the RDFI within ten Banking Days without charge.
- (c) At the request of its ODFI, the Originator must provide the original, copy, or other accurate Record of the Receiver's authorization to the ODFI for its use or for the use of an RDFI requesting the information. The Originator must provide the original, copy or other accurate Record in such time and manner as to enable the ODFI to deliver the authorization to a requesting RDFI within ten Banking Days of the RDFI's request.

**SUBSECTION 2.3.2.6 Notices of Variable Debits to Consumer Accounts**

- (a) *Notice of Change in Amount.* If the amount of a debit Entry to be initiated to a Consumer Account differs from the amount of the immediately preceding debit Entry relating to the same authorization, or differs from a preauthorized amount, an Originator must send the Receiver written notification of the amount of the Entry and the date on or after which the Entry will be debited at least ten calendar days prior to the date on which the Entry is scheduled to be initiated.
- (b) *No Notice Required for Change within Agreed Range.* The Originator is not required to give the notice in Subsection 2.3.2.6(a) (Notice of Change in Amount) above if (i) the Originator provides, and the Receiver chooses, the option to receive such notice only if the amount of the Entry falls outside a specified range or if the Entry differs from the most recent Entry by more than an agreed upon amount, and (ii) the variation in the amount of the Entry is within the tolerance agreed to by the Receiver.
- (c) *Notice of Change in Scheduled Debiting Date.* An Originator that changes the scheduled date on or after which debit Entries are to be initiated to a Receiver's account must send to the Receiver written notification of the new date on or after which Entries are scheduled to be debited to the Receiver's account. The Originator must send such notification to the Receiver at least seven calendar days before the first such Entry is scheduled to be debited to the Receiver's account. For purposes of this subsection, variation in debiting dates due to Saturdays, Sundays, or holidays are not considered to be changes in the scheduled dates.

**SUBSECTION 2.3.3 Agreement, Notice, and Authorization for Entries to Non-Consumer Accounts**

**SUBSECTION 2.3.3.1 Agreement to Be Bound by the Rules**

The Originator must obtain the Receiver's agreement to be bound by these Rules.

**SUBSECTION 2.3.3.2 Notice by ODFI to Originator for Non-Consumer Credit Entries**

For a credit Entry subject to Article 4A, an ODFI must provide the Originator with notice, as part of the Origination Agreement or otherwise, of each of the following:

- (a) the Entry may be Transmitted through the ACH;

- (b) the rights and obligations of the Originator concerning the Entry are governed by and construed in accordance with the laws of the State of New York, unless the Originator and the ODFI have agreed that the laws of another jurisdiction govern their rights and obligations;
- (c) credit given by the RDFI to the Receiver for the Entry is provisional until the RDFI has received final settlement through a Federal Reserve Bank or otherwise has received payment as provided for in Section 4A-403(a) of Article 4A; and
- (d) if the RDFI does not receive such payment for the Entry, the RDFI is entitled to a refund from the Receiver in the amount of the credit to the Receiver's account, and the Originator will not be considered to have paid the amount of the credit Entry to the Receiver.

**SUBSECTION 2.3.3.3 Provision of the Record of Authorization**

For a CCD, CTX, or Inbound IAT Entry to a Non-Consumer Account:

- (a) Upon receipt of an RDFI's written request for evidence of authorization of the Entry, the ODFI must provide either (1) an accurate record evidencing the Receiver's authorization, or (2) the contact information for the Originator that, at a minimum, includes (i) the Originator's name, and (ii) the Originator's phone number or email address for inquiries regarding authorization of Entries. This record of authorization or contact information must be provided to the RDFI within ten Banking Days of receipt of the request without charge.
- (b) At the request of its ODFI, the Originator must provide either (1) an accurate record evidencing the Receiver's authorization, or (2) contact information for the Originator that, at a minimum, includes (i) the Originator's name, and (ii) the Originator's phone number or email address for inquiries regarding authorization of Entries. The Originator must provide the record or information to the ODFI for its use or for the use of an RDFI requesting the information in such time and manner as to enable the ODFI to deliver the information to the requesting RDFI within ten Banking Days of the RDFI's request.

**SUBSECTION 2.3.4 Restrictions on Data Passing**

An ODFI must not disclose, and must ensure that the Originator and any Third-Party Service Provider acting on behalf of the Originator or ODFI do not disclose, the Receiver's account number or routing number to any third party for such third party's use, directly or indirectly, in initiating a separate debit Entry.

**SECTION 2.3 Authorization and Notice of Entries (new revised section)**

**SUBSECTION 2.3.1 General Rule – Originator Must Obtain Authorization from Receiver**

*An Originator must obtain authorization from the Receiver to originate one or more Entries to the Receiver's account, except for credit Entries for which the Originator and Receiver are both natural Persons.*

*An authorization must comply with applicable Legal Requirements, be readily identifiable as an authorization, and have clear and readily understandable terms. A purported authorization for an Entry that is not clear and readily understandable as to its terms, or that is otherwise invalid under applicable Legal Requirements, does not satisfy the requirements of this Subsection 2.3.*

**SUBSECTION 2.3.2 Form of Receiver Authorization for Entries to Consumer Accounts**

**SUBSECTION 2.3.2.1 Credit Entries to Consumer Accounts**

*The Originator of a credit Entry to a Consumer Account of the Receiver may obtain the Receiver's authorization in any manner permitted by applicable Legal Requirements.*

**SUBSECTION 2.3.2.2 Debit Entries to Consumer Accounts**

*The Originator of a debit Entry to a Consumer Account of the Receiver must obtain a written authorization that is signed or similarly authenticated by the Receiver, except as otherwise expressly permitted by these Rules.*

*In addition to the general requirements for an authorization, as defined under Subsection 2.3.1 (General Rule – Originator Must Obtain Authorization from Receiver), an authorization for a debit Entry to Consumer Account of the Receiver must, at a minimum, include:*

- (a) Language regarding whether the authorization obtained from the Receiver is for a Single Entry, multiple Entries, or Recurring Entries;*
- (b) The amount of the Entry(ies) or a reference to the method of determining the amount of the Entry(ies);*
- (c) The timing (including the start date), number, and/or frequency of the Entries;*
- (d) The Receiver’s name or identity;*
- (e) The account to be debited;*
- (f) The date of the Receiver’s authorization; and*
- (g) Language that instructs the Receiver how to revoke the authorization directly with the Originator (including the time and manner in which the Receiver’s communication with the Originator must occur). For a Single Entry scheduled in advance, the right of the Receiver to revoke the authorization must afford the Originator a reasonable opportunity to act on the revocation prior to initiating the Entry.*

*With respect to a Standing Authorization, these minimum standards for a consumer debit authorization may be met through a combination of the Standing Authorization and the Receiver’s affirmative action to initiate a Subsequent Entry.*

*Where these Rules provide that authorization for an Entry may be obtained by notice to the Receiver, the Receiver’s authorization may also be obtained by a signed, written authorization that meets the requirements of this subsection.*

#### **SUBSECTION 2.3.2.3 Electronic Authorizations**

The writing and signature requirements of Subsection 2.3.2.2 (Debit Entries to Consumer Accounts) may be satisfied by compliance with the Electronic Signatures in Global and National Commerce Act (15 U.S.C. §7001 et seq.). An Electronic authorization must be visually displayed in a manner that enables the consumer to read the communication.

#### **SUBSECTION 2.3.2.4 Oral Authorization for Debit Entries to Consumer Accounts**

*An Originator may obtain a Consumer Receiver’s Oral Authorization for a debit Entry, provided that the Oral Authorization meets the minimum standards for a debit authorization in Subsections 2.3.2.2 (Debit Entries to Consumer Accounts), and (b) meets the additional requirements, including use of the appropriate Standard Entry Class Code and security requirements, for the communication channel used to obtain the Oral Authorization. Where the Receiver’s Oral Authorization is communicated (other than via a telephone call) over an Unsecured Electronic Network, the Originator must comply with the security requirements of Section 1.7 (Secure Transmission of ACH Information via Unsecured Electronic Networks).*

*For a Single Entry authorized by the Receiver orally, the Originator must (a) make an audio recording of the Oral Authorization or provide the Receiver with written notice confirming the Oral Authorization prior to the settlement of the Entry; and (b) retain the original or a duplicate audio recording of the Oral Authorization, or the original or a copy of the written notice confirming the Oral Authorization, for two years from the date of the authorization.*

*For a Recurring Entry authorized by the Receiver orally, the Originator must (a) comply with the requirements of Regulation E for the authorization of preauthorized transfers, including the requirement to send a copy of the authorization to the Receiver, and (b) retain for two years from the termination or revocation of the authorization (i) the original or a duplicate audio recording of the Oral Authorization, and (ii) evidence that a copy of the authorization was provided to the Receiver in compliance with Regulation E.*

*For a Standing Authorization that is an Oral Authorization, the Originator must (a) make an audio recording of the Oral Authorization or provide the Receiver with written notice confirming the Oral Authorization prior to the settlement of the first Subsequent Entry; and (b)*

*retain the original or duplicate audio recording of the Oral Authorization, or the original or copy of the written notice confirming the Oral Authorization, for two years from the termination or revocation of the Standing Authorization.*

*The requirement that an Electronic authorization must be visually displayed in a manner that enables the consumer to read the communication, as required by Subsection 2.3.2.3 (Electronic Authorizations) does not apply when the consumer's authorization is an Oral Authorization.*

#### **SUBSECTION 2.3.2.5 Standing Authorization for Debit Entries to Consumer Accounts**

*An Originator may obtain a Standing Authorization from a Receiver for future Subsequent Entries to the Receiver's Consumer Account that require further affirmative action by the Receiver to initiate. In addition to the requirements of Subsections 2.3.2.2 (Debit Entries to Consumer Accounts), an Originator that obtains a Standing Authorization from a Consumer Receiver must clearly specify the action(s) that the Receiver can take to initiate a Subsequent Entry. A Subsequent Entry may be initiated in the manner(s) permitted in the corresponding Standing Authorization.*

*A Standing Authorization that is also an Oral Authorization must comply with the requirements of Subsection 2.3.2.4 (Oral Authorization for Debit Entries to Consumer Accounts).*

*In any case where the Receiver's affirmative action to initiate a Subsequent Entry involves the communication or confirmation of any of the Receiver's banking information (e.g., routing number, account number, PIN, or other identification symbol) via an Unsecured Electronic Network, the Originator must comply with the security requirements of Section 1.7 (Secure Transmission of ACH Information via Unsecured Electronic Networks).*

*At its discretion, and except as otherwise prohibited in these Rules, an Originator may identify a Subsequent Entry using the Standard Entry Class Code appropriate either to (a) the manner in which the Standing Authorization was obtained from the Receiver, or (b) the manner in which the Receiver's affirmative action to initiate the Subsequent Entry was communicated to the Originator. An Originator that obtains the Receiver's Standing Authorization as an Oral Authorization via a telephone call, or via the Internet or a Wireless Network, may not identify a Subsequent Entry using the PPD Standard Entry Class Code.*

#### **SUBSECTION 2.3.2.6 Copy of Receiver Authorization**

*An Originator must provide each Receiver with an Electronic or hard copy of the Receiver's authorization for all debit Entries to be initiated to a Consumer Account.*

#### **SUBSECTION 2.3.2.7 Retention and Provision of the Record of Authorization**

- (a) *An Originator must retain the original or a copy of each written authorization of a Receiver, or a readily and accurately reproducible Record evidencing any other form of authorization, for two years from the termination or revocation of the authorization.*

*With respect to a Standing Authorization, an Originator must retain the original or a copy of each Standing Authorization for two years following the termination or revocation of the authorization, as well as proof that the Receiver affirmatively initiated each payment in accordance with the terms of the Standing Authorization for two years following the Settlement Date of the Entry.*

*An Originator must retain the original or a copy of an Oral Authorization in the manner and for the time period required by Subsection 2.3.2.4 (Oral Authorization for Debit Entries to Consumer Accounts).*

- (b) *Upon receipt of an RDFI's written request, the ODFI must*

*(1) provide the original, copy, or other accurate Record of the Receiver's authorization, including, with regard to a Standing Authorization, evidence of the Receiver's affirmative action to initiate a Subsequent Entry in accordance with the terms of the Standing Authorization, to the RDFI within ten Banking Days without charge.*

**OR**

(2) confirm to the RDFI in writing the ODFI's agreement to accept the Return of the Entry that is the subject of the RDFI's inquiry at any time within ten Banking Days of providing the confirmation to the RDFI, without regard to any other time limits on Returns under these Rules.

Where the ODFI has accepted, or has agreed to accept, the Return Entry, and the RDFI subsequently still requests evidence of authorization of the Entry, the ODFI must provide the original, copy, or other accurate Record to the RDFI within ten Banking Days of the RDFI's subsequent request to the ODFI for a copy of the Receiver's authorization.

(c) At the request of its ODFI, the Originator must provide the original, copy, or other accurate Record of the Receiver's authorization, including, with regard to a Standing Authorization, evidence of the Receiver's affirmative action to initiate a Subsequent Entry in accordance with the terms of the Standing Authorization, to the ODFI for its use or for the use of an RDFI requesting the information.

The Originator must provide the original, copy, or other accurate Record in such time and manner as to enable the ODFI to deliver the authorization to a requesting RDFI within ten Banking Days of the RDFI's request.

**SUBSECTION 2.3.2.8 Notices of Variable Recurring Debit Entries to Consumer Accounts**

- (a) Notice of Change in Amount. If the amount of a debit Recurring Entry to be initiated to a Consumer Account differs from the amount of the immediately preceding debit Recurring Entry relating to the same authorization, or differs from a preauthorized amount, an Originator must send the Receiver written notification of the amount of the Entry and the date on or after which the Entry will be debited at least ten calendar days prior to the date on which the Entry is scheduled to be initiated.
- (b) No Notice Required for Change within Agreed Range. The Originator is not required to give the notice in Subsection 2.3.2.8(a) (Notice of Change in Amount) above if (i) the Originator provides, and the Receiver chooses, the option to receive such notice only if the amount of the Recurring Entry falls outside a specified range or if the Recurring Entry differs from the most recent Recurring Entry by more than an agreed upon amount, and (ii) the variation in the amount of the Recurring Entry is within the tolerance agreed to by the Receiver.
- (c) Notice of Change in Scheduled Debiting Date. An Originator that changes the scheduled date on or after which debit Recurring Entries are to be initiated to a Receiver's account must send to the Receiver written notification of the new date on or after which Recurring Entries are scheduled to be debited to the Receiver's account. The Originator must send such notification to the Receiver at least seven calendar days before the first such Entry is scheduled to be debited to the Receiver's account. For purposes of this subsection, variation in debiting dates due to Saturdays, Sundays, or holidays are not considered to be changes in the scheduled dates.

**SUBSECTION 2.3.3 Form of Receiver Authorization, Agreement, and Notice Requirement for Entries to Non-Consumer Accounts**

**SUBSECTION 2.3.3.1 Form of Receiver Authorization and Agreement to Be Bound by the Rules for Entries to Non-Consumer Accounts**

The Originator of any Entry to a non-Consumer Account of the Receiver may obtain the Receiver's authorization in any manner permitted by applicable Legal Requirements and must obtain the Receiver's agreement to be bound by these Rules.

**SUBSECTION 2.3.3.2 Notice by ODFI to Originator for Non-Consumer Credit Entries**

For a credit Entry subject to Article 4A, an ODFI must provide the Originator with notice, as part of the Origination Agreement or otherwise, of each of the following:

- (a) the Entry may be Transmitted through the ACH;



- (b) the rights and obligations of the Originator concerning the Entry are governed by and construed in accordance with the laws of the State of New York, unless the Originator and the ODFI have agreed that the laws of another jurisdiction govern their rights and obligations;
- (c) credit given by the RDFI to the Receiver for the Entry is provisional until the RDFI has received final settlement through a Federal Reserve Bank or otherwise has received payment as provided for in Section 4A-403(a) of Article 4A; and
- (d) if the RDFI does not receive such payment for the Entry, the RDFI is entitled to a refund from the Receiver in the amount of the credit to the Receiver's account, and the Originator will not be considered to have paid the amount of the credit Entry to the Receiver.

**SUBSECTION 2.3.3.3 Provision of the Record of Authorization**

*For a CCD, CTX, or Inbound IAT Entry to a Non-Consumer Account:*

- (a) *Within ten Banking Days of receipt of an RDFI's written request for evidence of authorization of the Entry, the ODFI must either*
  - (1) *provide an accurate record evidencing the Receiver's authorization, or*
  - (2) *provide the contact information for the Originator that, at a minimum, includes (i) the Originator's name, and (ii) the Originator's phone number or email address for inquiries regarding authorization of Entries, or*
  - (3) *confirm in writing the ODFI's agreement to accept the Return of the Entry that is the subject of the RDFI's inquiry at any time within ten Banking Days of providing the confirmation to the RDFI, without regard to any other time limits on Returns under these Rules.*

*Where the ODFI has accepted, or has agreed to accept, the Return Entry, and the RDFI subsequently still requests evidence of authorization of the Entry, the ODFI must provide the original, copy, or other accurate Record to the RDFI within ten Banking Days of the RDFI's subsequent request.*

*The ODFI must provide this information to the RDFI without charge.*

- (b) *At the request of its ODFI, the Originator must provide either*
  - (1) *an accurate record evidencing the Receiver's authorization, or*
  - (2) *contact information for the Originator that, at a minimum, includes (i) the Originator's name, and (ii) the Originator's phone number or email address for inquiries regarding authorization of Entries.*

*The Originator must provide the record or information to the ODFI for its use or for the use of an RDFI requesting the information in such time and manner as to enable the ODFI to deliver the information to the requesting RDFI within ten Banking Days of the RDFI's request.*

**SUBSECTION 2.3.4 Restrictions on Data Passing**

An ODFI must not disclose, and must ensure that the Originator and any Third-Party Service Provider acting on behalf of the Originator or ODFI do not disclose, the Receiver's account number or routing number to any third party for such third party's use, directly or indirectly, in initiating a separate debit Entry.

## SECTION 2.4 General Warranties and Liabilities of Originating Depository Financial Institutions

### SUBSECTION 2.4.1.1 *The Entry Is Authorized by the Originator and Receiver*

- (a) The Entry has been properly authorized by the Originator and the Receiver in accordance with these Rules.
- (b) The Originator's authorization has not been revoked, the Origination Agreements concerning the Entry have not been terminated, and neither the ODFI, any Third-Party Sender, nor the Originator has actual knowledge of the revocation of the Receiver's authorization or of the termination of the agreement between the RDFI and the Receiver concerning the Entry.
- (c) At the time the Entry is processed by an RDFI, the authorization for that Entry has not been terminated, in whole or in part, by operation of law. This Subsection 2.4.1.1(c) shall not apply if the RDFI has actual knowledge of the circumstances giving rise to such termination at the time it processes the Entry and the ODFI does not have such actual knowledge.

*The ODFI's warranties regarding authorization, as defined in this subsection 2.4.1.1, do not apply to credit Entries where both the Originator and Receiver are natural Persons.*

## SECTION 2.5 Provisions for Specific Types of Entries

### **SUBSECTION 2.5.15 *Specific Provisions for TEL Entries (Telephone-Initiated Entry) (this subsection will be revised and replaced)***

#### **SUBSECTION 2.5.15.1 *General Rule for TEL Entries***

A TEL Entry is a debit Entry to a Consumer Account originated based on an oral authorization provided to the Originator by a Consumer Receiver via the telephone. A TEL Entry may only be used when there is an Existing Relationship between the Originator and the Receiver, or, when there is not an Existing Relationship between the Originator and the Receiver, when the Receiver initiates the telephone call. An ODFI must perform, or ensure that its Originator or Third-Party Sender performs, the requirements of Subsection 2.5.15.2 (Authorization of TEL Entries) and Subsection 2.5.15.3 (Retention of the Record of Authorization for TEL Entries) below before permitting the Originator or Third-Party Sender to initiate a TEL Entry.

#### **SUBSECTION 2.5.15.2 *Authorization of TEL Entries***

An Originator must satisfy the requirement for authorization of a TEL Entry by obtaining oral authorization from the Receiver to initiate a debit Entry to a Consumer Account of the Receiver. The authorization must be readily identifiable as an authorization and must have clear and readily understandable terms.

In addition to the requirements of Subsection 2.3.2.3 (Form of Authorization), the following minimum information must be included as part of the authorization of a Single Entry TEL Entry:

- (a) the date on or after which the ACH debit to the Receiver's account will occur;
- (b) the amount of the transaction or a reference to the method of determining the amount of the transaction;
- (c) the Receiver's name or identity;
- (d) the account to be debited;
- (e) a telephone number for Receiver inquiries that is answered during normal business hours;
- (f) the date of the Receiver's oral authorization; and

- (g) a statement by the Originator that the authorization obtained from the Receiver is for a Single-Entry ACH debit, a one-time electronic funds transfer, or other similar reference.

For an authorization related to a Single Entry TEL Entry, the Originator must either make an audio recording of the oral authorization, or provide the Receiver with written notice confirming the oral authorization prior to the settlement of the Entry.

In addition to the requirements of Subsection 2.3.2.3 (Form of Authorization), the following minimum information must be included as part of the authorization of a recurring TEL Entry:

- (h) the amount of the recurring transactions, or a reference to the method of determining the amounts of recurring transactions;
- (i) the timing (including the start date), number, and/or frequency of the electronic fund transfers, or other similar reference, to the Consumer's account;
- (j) the Receiver's name or identity;
- (k) the account to be debited;
- (l) a telephone number for Receiver inquiries that is answered during normal business hours; and
- (m) the date of the Receiver's oral authorization.

For an authorization relating to recurring TEL Entries, the Originator must comply with the requirements of Regulation E for the authorization of preauthorized transfers, including the requirement to send a copy of the authorization to the Receiver.

***SUBSECTION 2.5.15.3 Retention of the Record of Authorization for TEL Entries***

An Originator must retain the original or a copy of the written notice or the original or a duplicate audio recording of the oral authorization for two years from the date of the authorization of a Single Entry TEL Entry. For recurring TEL Entries, an Originator must retain for two years from the termination or revocation of the authorization (i) the original or a duplicate audio recording of the oral authorization, and (ii) evidence that a copy of the authorization was provided to the Receiver in compliance with Regulation E.

***SUBSECTION 2.5.15.4 Additional ODFI Warranties for TEL Entries***

In addition to the other warranties contained within these Rules, an ODFI originating a TEL Entry warrants to each RDFI and ACH Operator that:

- (a) *Verification of Receiver's Identity.* The Originator has established and implemented commercially reasonable procedures to verify the identity of the Receiver.
- (b) *Verification of Routing Numbers.* The Originator has established and implemented commercially reasonable procedures to verify that the routing number used in the TEL Entry is valid.

***SUBSECTION 2.5.15.5 Rules Exceptions for TEL Entries***

The requirement that an Electronic authorization must be visually displayed in a manner that enables the consumer to read the communication, as required by Subsection 2.3.2.4 (Electronic Authorizations), does not apply to TEL Entries.

**SUBSECTION 2.5.15 Specific Provisions for TEL Entries (Telephone-Initiated Entry) (revised subsection)****SUBSECTION 2.5.15.1 General Rule for TEL Entries**

*A TEL Entry is a debit Entry to a Consumer Account originated based on an Oral Authorization provided to the Originator by a Consumer Receiver via a telephone call. A TEL Entry may only be used when there is an Existing Relationship between the Originator and the Receiver, or, when there is not an Existing Relationship between the Originator and the Receiver, when the Receiver initiates the telephone call.*

**SUBSECTION 2.5.15.2 Use of TEL Standard Entry Class Code for Subsequent Entries**

*At its discretion, an Originator may identify a Subsequent Entry as a debit TEL Entry if the Receiver's affirmative action for the initiation of the Subsequent Entry is communicated by the Receiver to the Originator orally via a telephone call, regardless of the manner in which the Standing Authorization was obtained. The requirements of Subsection 2.5.15.3 (Authorization of TEL Entries) and Subsection 2.5.15.5 (Verification of Receiver's Routing Number) do not apply to such a TEL Entry.*

**SUBSECTION 2.5.15.3 Authorization of TEL Entries**

*In addition to meeting the requirements of Subsection 2.3.2.2 (Debit Entries to Consumer Accounts), an Originator that obtains the Receiver's Oral Authorization via a telephone call must also provide the Receiver, as part of the terms of the authorization, a telephone number for Receiver inquiries that is answered during normal business hours.*

**SUBSECTION 2.5.15.4 Verification of Receiver's Identity**

*An Originator must establish and implement commercially reasonable procedures to verify the identity of the Receiver.*

**SUBSECTION 2.5.15.5 Verification of Receiver's Routing Number**

*An Originator must establish and implement commercially reasonable procedures to verify that the routing number used in the TEL Entry is valid.*

**SUBSECTION 2.5.17 Specific Provisions for WEB Entries (Internet-Initiated/Mobile Entry)****SUBSECTION 2.5.17.1 General Rule for WEB Entries**

A debit WEB Entry is a debit Entry to a Consumer Account originated based on (1) an authorization that is communicated, other than by an oral communication, from the Receiver to the Originator via the Internet or a Wireless Network; or (2) any form of authorization if the Receiver's instruction for the initiation of the individual debit Entry is designed by the Originator to be communicated, other than by an oral communication, to the Originator via a Wireless Network. An ODFI must perform, or ensure that its Originator or Third-Party Sender performs, the requirements of Subsection 2.5.17.2 (Authorization of Debit WEB Entries) and Subsection 2.5.17.3 (Annual Audit Requirements for Debit WEB Entries) before permitting an Originator or Third-Party Sender to initiate a WEB Entry.

*A debit WEB Entry is a debit Entry to a Consumer Account originated based on (1) any form of authorization that is communicated from the Receiver to the Originator via the Internet or a Wireless Network, except for an Oral Authorization via a telephone call; or (2) any form of authorization if the Receiver's instruction for the initiation of the individual debit Entry is designed by the Originator to be communicated, other than orally via a telephone call, to the Originator via a Wireless Network.*

A credit WEB Entry is a credit Entry initiated by or on behalf of the holder of a Consumer Account that is intended for a Consumer Account of a Receiver, regardless of whether the authorization is communicated via the Internet or Wireless Network.

**SUBSECTION 2.5.17.2 Use of WEB Standard Entry Class Code for Subsequent Entries**

*At its discretion, an Originator may identify a Subsequent Entry as a debit WEB Entry if the Receiver's affirmative action for the initiation of the Subsequent Entry is communicated by the Receiver to the Originator via the Internet, regardless of the manner in which the Standing Authorization was obtained. The requirements of Subsection 2.5.17.3 (Annual Audit Requirements for Debit WEB Entries) and 2.5.17.6 (Verification of Routing Numbers) do not apply to such a debit WEB Entry.*

**SUBSECTION 2.5.17.3 Annual Audit Requirements for Debit WEB Entries**

An Originator of a debit WEB Entry must conduct, or have conducted on its behalf, annual audits to ensure that the financial information it obtains from Receivers is protected by security practices and procedures that include, at a minimum, adequate levels of:

- (a) physical security to protect against theft, tampering, or damage;
- (b) personnel and access controls to protect against unauthorized access and use; and
- (c) network security to ensure secure capture, storage, and distribution.

**SUBSECTION 2.5.17.4 Use of Fraud Detection Systems**

*An Originator of a debit WEB Entry must establish and implement a commercially reasonable fraudulent transaction detection system to screen the debit WEB Entry. Such a fraudulent transaction detection system must, at a minimum, validate the account to be debited for the first use of such account number, and for any subsequent change(s) to the account number.*

**SUBSECTION 2.5.17.5 Verification of Receiver's Identity**

*An Originator of a debit WEB Entry must establish and implement commercially reasonable methods of authentication to verify the identity of the Receiver of the debit WEB Entry.*

**SUBSECTION 2.5.17.6 Verification of Routing Numbers**

*An Originator of a debit WEB Entry must establish and implement a commercially reasonable procedures to verify that the routing number used in the debit WEB Entry is valid.*

**SUBSECTION 2.5.17.7 Additional Indemnity for Credit WEB Entries**

An ODFI shall indemnify each RDFI from and against any and all claims, demands, losses, liabilities, and expenses, including attorneys' fees and costs, that result directly or indirectly from the RDFI's accurate communication or display to a Receiver of any information provided within the Payment Related Information field of an Addenda Record Transmitted by the ODFI with a credit WEB Entry.

**SUBSECTION 2.5.17.8 ODFI to Satisfy Periodic Statement Requirement for Credit WEB Entries**

An ODFI must provide or make available to the Originator the following information with respect to the Consumer Account of the Originator of a credit WEB Entry:

- (a) the date funds were debited from the Consumer's Account for the purpose of funding the credit WEB Entry;
- (b) dollar amount of the funds debited;
- (c) payee name;
- (d) a description of the payment;
- (e) account type;
- (f) account number;
- (g) amount of any charges assessed against the account for services related to the Entry;
- (h) balances in the Originator's account at the beginning and at the close of the statement period; and

- (i) address and telephone number to be used for inquiries or notices of errors preceded by “Direct Inquiries To” or similar language.

References to data elements contained in an Entry are further defined in Appendix Three (ACH Record Format Specifications). The requirements of this subsection apply regardless of whether Regulation E imposes similar requirements on the ODFI.

**SUBSECTION 2.5.17.9 Rules That Do Not Apply to Credit WEB Entries**

The following subsections do not apply to credit WEB Entries:

- (a) Subsection 2.2.2.1 (ODFI Must Enter Origination Agreement with Originator); and
- (b) Subsection 2.2.3 (ODFI Risk Management), to the extent applicable to Originators.

ARTICLE THREE

**Rights and Responsibilities of RDFIs and Their Receivers**

**SECTION 3.12 Written Statement of Unauthorized Debit**

**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);
- (e) the Entry was improperly reinitiated, as defined by Subsection 3.12.2.3 (Improperly Reinitiated Debit Entries); or
- (f) *the Entry was not affirmatively initiated by the Receiver in accordance with the terms of the Standing Authorization.*

**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.

*An RDFI may obtain a Written Statement of Unauthorized Debit as an Electronic Record, as permissible in Subsection 1.4.3 (Electronic Record Creation and Retention). An RDFI may accept a consumer's Electronic Signature, as permissible in Subsection 1.4.4. (Electronic Signatures), for a Written Statement of Unauthorized Debit regardless of its form or the method used to obtain it.*

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ARTICLE EIGHT

Definitions of Terms Used in These Rules

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**SECTION 8.55 "Internet-Initiated/Mobile Entry" or "WEB Entry" or "WEB"**

- (1) a debit Entry initiated by an Originator to a Consumer Account of the Receiver based on (a) an authorization that is communicated, other than by an oral communication, from the Receiver to the Originator via the Internet or a Wireless Network, or (b) any form of authorization if the Receiver's instruction for the initiation of the individual debit Entry is designed by the Originator to be communicated, other than by an oral communication, to the Originator via a Wireless Network; or

*(1) a debit Entry initiated by an Originator to a Consumer Account of the Receiver based on (a) any form of authorization that is communicated from the Receiver to the Originator via the Internet or a Wireless Network, except for an Oral Authorization via a telephone call; or (b) any form of authorization if the Receiver's instruction for the initiation of the individual debit Entry is designed by the Originator to be communicated, other than orally via a telephone call, to the Originator via a Wireless Network; or*

*(2) at the discretion of the Originator, a debit Subsequent Entry for which the Receiver's affirmative action for the initiation of the Subsequent Entry is communicated by the Receiver to the Originator via the Internet, regardless of the manner in which the Standing Authorization was obtained; or*

- (3) a credit Entry initiated by or on behalf of the holder of a Consumer Account that is intended for the Consumer Account of a Receiver, regardless of whether the authorization of such Entry is communicated via the Internet or Wireless Network.

**SECTION 8.64 “Oral Authorization” (new section)**

*a remote (not in-person) oral authorization of one or more Entries to a Consumer Account. An authorization that is created by voice-to-text technology is not considered an Oral Authorization if it is either (a) visually reviewed and confirmed by the Receiver prior to delivery to the Originator, or (b) used by the Receiver without prompting by the Originator.*

**SECTION 8.78 “Prearranged Payment and Deposit Entry” or “PPD Entry” or “PPD”**

a credit or debit Entry initiated by an Organization to a Consumer Account of a Receiver based on a standing or a Single Entry authorization from the Receiver.

*a credit or debit Entry initiated by an Organization to a Consumer Account of a Receiver based on an authorization from the Receiver.*

**SECTION 8.88 “Recurring Entry” (new section)**

*an Entry to a Consumer Account that recurs at substantially regular intervals, without further affirmative action by the Receiver to authorize those future Entries.*

**SECTION 8.107 “Standing Authorization” (new section)**

*an advance authorization by a Receiver of future Entries to the Receiver’s Consumer Account that requires further affirmative action by the Receiver to initiate those future Entries.*

**SECTION 8.108 “Subsequent Entry” (new section)**

*an Entry to a Consumer Account that is initiated by a Receiver’s affirmative action in accordance with the terms of a Standing Authorization.*

**SECTION 8.109 “Telephone-Initiated Entry” or “TEL Entry” or “TEL”**

a debit Entry initiated by an Originator to a Consumer Account of the Receiver based on an oral authorization obtained over the telephone.

*(1) a debit Entry initiated by an Originator to a Consumer Account of the Receiver based on an Oral Authorization obtained via a telephone call; or (2) at the discretion of the Originator, a debit Subsequent Entry for which the Receiver’s affirmative action for the initiation of the Subsequent Entry is communicated by the Receiver to the Originator orally via a telephone call, regardless of the manner in which the Standing Authorization was obtained.*

APPENDIX THREE

ACH Record Format Specifications

**SUBPART 3.1.22 Sequence of Records for WEB Entries**

*Please see proposed changes to Payment Type Code Field in the attached WEB Entry Detail Record.*

**SUBPART 3.2.1 Field Inclusion Requirements**

**Discretionary Data:** 2 Positions – Entry Detail Record, Corporate Entry Detail Record – Optional (ACK, ADV, ARC, ATX, BOC, CCD, CIE, CTX, DNE, MTE, POP, PPD, RCK, XCK, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR)

This field in the Entry Detail Record allows ODFIs to include codes, of significance to them, to enable specialized handling of the Entry. There is no standardized interpretation for the value of this field. It can either be a single two-character code, or two distinct one-character codes, according to the needs of the ODFI and/or Originator involved. This field must be returned intact for any returned Entry.



CCD, CTX: When an Acknowledgment Entry is requested by an Originator, this field contains “AK”.

*PPD: At its discretion, the Originator may choose to include the value “R” to identify a Recurring Entry, “S” to identify a Single Entry, or “ST” to identify an Entry initiated as part of a Standing Authorization.*

**Payment Type Code:** 2 Positions – Entry Detail Record – Required (WEB, Returns, dishonored Returns, contested dishonored Returns); Optional (TEL)

This field is used to indicate whether an Entry is a recurring or Single-Entry payment.

*TEL:* For a recurring TEL Entry, this field must contain the value “R.” For a Single-Entry TEL Entry, this field must either contain the value “S” or be space-filled.

*WEB:* For a recurring WEB Entry, this field must contain the value “R”. For a Single-Entry WEB Entry, this field must contain the value “S”.

**Payment Type Code:** 2 Positions – Entry Detail Record – Optional (TEL, WEB, Returns, dishonored Returns, contested dishonored Returns)

*This field allows Originators to include codes, of significance to them, to enable specialized handling of the Entry. There is no standardized interpretation for the value of this field. At its discretion, the Originator may choose to include the value “R” to identify a Recurring Entry, “S” to identify a Single Entry, or “ST” to identify an Entry initiated as part of a Standing Authorization.*

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## APPENDIX FOUR

### Return Entries

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#### **SUBPART 4.2 Table of Return Reason Codes**

*Please see attached Table of Return Reason Codes.*

**SUBPART 3.1.22 Sequence of Records for WEB Entries**

**WEB ENTRY DETAIL RECORD**

FIELD	1	2	3	4	5	6	7	8	9	10	11
DATA ELEMENT NAME	RECORD TYPE CODE	TRANSACTION CODE	RECEIVING DFI IDENTIFICATION	CHECK DIGIT	DFI ACCOUNT NUMBER	AMOUNT	INDIVIDUAL IDENTIFICATION NUMBER <sup>1</sup>	INDIVIDUAL NAME	PAYMENT TYPE CODE	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O/R	M	R O	M	M
Contents	'6'	Numeric	TTTTAAAA	Numeric	Alphameric	\$\$\$\$\$\$\$\$cc	Alphameric	Alphameric	Alphameric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94

<sup>1</sup> For Person-to-Person WEB credit Entries, this field (positions 40-54) is required and contains the name of the consumer Originator. For WEB debit Entries, this field (positions 40-54) is optional, and is used at the discretion of the Originator.

**WEB ADDENDA RECORD**

FIELD	1	2	3	4	5
DATA ELEMENT NAME	RECORD TYPE CODE	ADDENDA TYPE CODE	PAYMENT RELATED INFORMATION	ADDENDA SEQUENCE NUMBER	ENTRY DETAIL SEQUENCE NUMBER
Field Inclusion Requirement	M	M	O	M	M
Contents	'7'	'05'	Alphameric	Numeric	Numeric
Length	1	2	80	4	7
Position	01-01	02-03	04-83	84-87	88-94

**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	<b>Customer Advises Entry Not in Accordance with the Terms of the Authorization</b>	<p>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; notice was not provided; amount of the entry was not accurately obtained from the source document.</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 part of an Incomplete Transaction; the debit entry was improperly reinitiated; for ARC, BOC, or POP entries; notice was not provided; amount of the entry was not accurately obtained from the source document.</i></p>	RDFI	Extended Return	Consumer; For ARC, BOC, POP, and IAT entries, may also be a Non-Consumer. See note for additional exceptions.	**60 Calendar Days	Yes	<p><i>Article Three, Subsection 3.12.2 - Debit Entry, Not in Accordance with the Terms of the Authorization</i></p> <p>Article Three, Subsection 3.1.3 - RDFI May Rely on Standard Entry Class Codes</p> <p>Article Three, Subsection 3.4.1.1 - Rule Exception for CCD and CTX Entries to Consumer Accounts</p> <p>Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries</p> <p>Article Eight, Section 8.53 - Incomplete Transaction</p>	<p>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</p> <p>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.</p> <p>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.</p> <p>For ARC, BOC, and POP entries for which the source document has been presented for payment, use R37.</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 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 opening of business on the Banking Day following the sixtieth calendar day following the Settlement Date of the original Entry.

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## Appendix A: Meaningful Modernization Individual Technical Summaries

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### STANDING AUTHORIZATIONS

#### **Technical Summary**

Below is a summary of the impact of the Standing Authorizations rule on the Nacha Operating Rules.

- *Article Two, Subsection 2.3.2.4 (Standing Authorization for Debit Entries to Consumer Accounts)* – New section defines additional authorization requirements for Standing Authorizations and Subsequent Entries.
- *Article Two, Subsection 2.3.2.6 (Retention and Provision of the Record of Authorization)* – Updated for Standing Authorizations.
- *Article Two, Subsection 2.5.15.1 (General Rule for TEL Entries)* – Modified to specify use for telephone calls.
- *Article Two, Subsection 2.5.15.2 (Use of TEL Standard Entry Class Code for Subsequent Entries)* – New subsection to allow TEL for Subsequent Entries.
- *Article Two, Subsection 2.5.17.1 (General Rule for WEB Entries)* – Modified to broaden use for authorizations communicated via the Internet or a Wireless Network.
- *Article Two, Subsection 2.5.17.2 (Use of WEB Standard Entry Class Code for Subsequent Entries)* – New subsection to add WEB for Subsequent Entries.
- *Article Three, Subsection 3.12.2 (Debit Entry Not in Accordance with the Terms of the Authorization)* – Updated to include Standing Authorization.
- *Article Eight, Section 8.55 (Internet-Initiated/Mobile Entry or WEB Entry or WEB)* – Expanded to address Standing Authorizations and Subsequent Entries.
- *Article Eight, Section 8.105 (Standing Authorization)* – New section to add Standing Authorization to Defined Terms.
- *Article Eight, Section 8.106 (Subsequent Entry)* – New section to add Subsequent Entry to Defined Terms.
- *Article Eight, Section 8.107 (Telephone-Initiated Entry or TEL Entry or TEL)* – Expanded to address Standing Authorizations and Subsequent Entries.
- *Appendix Three, Subpart 3.1.22 (Sequence of Records for WEB Entries)* – Updated to allow for optional Payment Type Code use for Subsequent Entries.
- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* – “Discretionary Data” updated to allow for optional formatting.
- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* – “Payment Type Code” updated to remove required use and allow for optional formatting.
- *Appendix Four, Subpart 4.2 (Table of Return Reason Codes)* – Updated to allow use of Return Reason Code R11 to return Subsequent Entries.

## ORAL AUTHORIZATIONS

### Technical Summary

Below is a summary of the impact of the Oral Authorizations rule on the Nacha Operating Rules.

- *Article Two, Subsection 2.3.2.4 (Oral Authorization for Debit Entries to Consumer Accounts)* – New section defines additional authorization requirements for Oral Authorizations.
- *Article Two, Subsection 2.3.2.6 (Retention and Provision of the Record of Authorization)* – Updated for Standing Authorizations.
- *Article Two, Subsection 2.5.15.1 (General Rule for TEL Entries)* – Modified to allow Oral Authorizations and specify use for telephone calls.
- *Article Two, Subsection 2.5.15.2 (Authorization of TEL Entries)* – Modified to add Oral Authorization requirements for TEL entries.
- *Article Two, Subsection 2.5.15.3 (Retention of the Record of Authorization for TEL Entries)* – This section will be removed from the Rules.
- *Article Two, Subsection 2.5.15.5 (Rules Exceptions for TEL Entries)* – This section will be removed from the Rules.
- *Article Two, Subsection 2.5.17.1 (General Rule for WEB Entries)* – Modified to allow Oral Authorizations and maintain the exception for those communicated via telephone call.
- *Article Two, Subsection 2.5.17.2 (Authorization of Debit WEB Entries)* – Modified to eliminate the requirement for a written authorization; allow Oral Authorizations; and maintain the exclusion for Oral Authorizations communicated via telephone call.
- *Article Eight, Section 8.55 (Internet-Initiated/Mobile Entry or WEB Entry or WEB)* – Modified to allow Oral Authorizations and maintain the exception for those communicated via telephone call.
- *Article Eight, Section 8.64 (Oral Authorization)* – New section to add Oral Authorization to Defined Terms.
- *Article Eight, Section 8.106 (Telephone-Initiated Entry or TEL Entry or TEL)* – Modified to limit use to Oral Authorizations obtained via a telephone call.

## OTHER AUTHORIZATION ISSUES

### Technical Summary

Below is a summary of the impact of the Other Authorization Issues rule on the Nacha Operating Rules.

- *Article Two, Subsection 2.3.1 (General Rule – Originator Must Obtain Authorization from Receiver)* – Updated to include the clear and readily understandable terms and readily identifiable standards.
- *Article Two, Subsection 2.3.2 (Form of Receiver Authorization for Entries to Consumer Accounts)* – New subsection describing consumer authorization requirements.
- *Article Two, Subsection 2.3.2.1 (Credit Entries to Consumer Accounts)* – New subsection defining consumer credit entry authorization requirements.
- *Article Two, Subsection 2.3.2.2 (Debit Entries to Consumer Accounts)* – New subsection defining consumer debit entry authorization requirements.

- *Article Two, Subsection 2.3.2.3 (Copy of Receiver Authorization)* – New subsection describing requirement to provide a copy of a consumer’s debit entry authorization.
- *Article Two, Subsection 2.3.2.4 (Electronic Authorizations)* – Modified to update cross references.
- *Article Two, Subsection 2.3.2.6 (Notices of Variable Recurring Debit Entries to Consumer Accounts)* – Retitled and updated to reference Recurring Entries.
- *Article Two, Subsection 2.3.3 (Form of Receiver Authorization, Agreement, and Notice Requirement for Entries to Non-Consumer Accounts)* – Retitled and expanded to reflect changes to Non-Consumer authorizations.
- *Article Two, Section 2.4.1.1 (The Entry is Authorized by the Originator and Receiver)* – Modified to address ODFI warranties for credit entries when the Originator and Receiver are natural persons.
- *Article Two, Subsection 2.5.15.1 (General Rule for TEL Entries)* – Modified to clarify that a TEL Entry is for authorizations via telephone call and to remove an ODFI obligation for TEL Entries.
- *Article Two, Subsection 2.5.15.2 (Authorization of TEL Entries)* – Modified to address Recurring Entries, require a business telephone number, and remove redundant requirements.
- *Article Two, Subsection 2.5.15.4 (Verification of Receiver’s Identity)* – New subsection to address identity verification requirement.
- *Article Two, Subsection 2.5.15.5 (Verification of Receiver’s Identity)* – New subsection to address routing number verification requirement.
- *Article Two, Subsection 2.5.17.1 (General Rule for WEB Entries)* – Modified to exclude oral authorizations via telephone call and to remove an ODFI obligation for WEB Entries.
- *Article Two, Subsection 2.5.17.2 (Authorization of Debit WEB Entries)* – Existing subsection will be removed from the Rules.
- *Article Two, Subsection 2.5.17.3 (Use of Fraud Detection Systems)* – New subsection to address fraud detection system requirement.
- *Article Two, Subsection 2.5.17.4 (Verification of Receiver’s Identity)* – New subsection to address requirement to verify Receiver’s identity.
- *Article Two, Subsection 2.5.17.4 (Additional ODFI Warranties for Debit WEB Entries)* – Existing subsection will be removed from the Rules.
- *Article Two, Subsection 2.5.17.5 (Verification of Routing Numbers)* – New subsection to address requirement to verify Receiver’s routing number.
- *Article Eight, Section 8.77 (Prearranged Payment and Deposit Entry or PPD Entry or PPD)* – Modified to allow any type of authorization from a Receiver.
- *Article Eight, Section 8.87 (Recurring Entry)* – New section to add Recurring Entry to list of Defined Terms.

## ALTERNATIVE TO PROOF OF AUTHORIZATION

### **Technical Summary**

Below is a summary of the impact of the Alternative to Proof of Authorization rule on the Nacha Operating Rules.

- *Article Two, Subsection 2.3.2.5 (Retention and Provision of the Record of Authorization)* – Expanded to allow an ODFI to accept the return of a debit entry instead of providing proof of authorization and to allow the RDFI to make a subsequent request for proof of authorization.
- *Article Two, Subsection 2.3.3.3 (Provision of the Record of Authorization)* – Expanded to allow an ODFI to accept the return of debit entry instead of providing proof of authorization and to allow the RDFI to make a subsequent request for proof of authorization.

## WRITTEN STATEMENT OF UNAUTHORIZED DEBIT VIA ELECTRONIC OR ORAL METHODS

### **Technical Summary**

Below is a summary of the impact of the Written Statement of Unauthorized Debit via Electronic or Oral Methods rule on the Nacha Operating Rules.

- *Article Three, Subsection 3.12.4 (Form of Written Statement of Unauthorized Debit)* – Expanded to explicitly state that electronic records and electronic signatures are allowed for WSUDs.

## 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 2021 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 (2021). 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, 2021 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, 2021, and January 31, 2022. Participating DFIs that exceed the threshold during the calendar year must aggregate all prior quarters’ fees in their current quarter’s Form N-7 (2021) payment. Participating DFIs whose direct send volume is below this threshold must submit the above data and fees for calendar year 2021 by January 31, 2022.

**Nacha**  
**2021 Schedule of Fees**

**ACH Network Administration Fees**

This Schedule of Fees has been established by the Nacha Board of Directors for calendar year 2021 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 (2021) 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 2021 calendar year.

### **Who Does Not Have to File**

Any Participating DFI that transmits and receives 100% of its ACH entries during 2021 through an ACH Operator or with affiliated Participating DFIs does not need to file Form N-7 (2021). 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, 2021 must file on a quarterly basis thereafter. The submission deadlines for quarterly filers are April 30, July 31, and October 31, 2021, and January 31, 2022. 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 2021 data and fees by January 31, 2022.

Completed forms and payment must be received by Nacha no later than the above deadlines. Submit forms electronically to [N7Form@nacha.org](mailto:N7Form@nacha.org).

Payment via ACH credit is preferred. The ACH 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 (2021)).

If paying by check, please make the check payable to Nacha and mail to: Nacha, Attn: Finance Department, 2550 Wasser Terrace, Suite 400, Herndon, VA 20171.

### **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 2021 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 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/network-administration-fees> or contact Nacha, 800-487-9180 or 703-561-1100 or email: [N7Form@nacha.org](mailto:N7Form@nacha.org).



**FORM N-7 (2021)**  
**(continued)**

b. 2021 total direct send ACH entries (*see instructions*) \_\_\_\_\_

**4.** 2021 per entry fee x \$.000185

**5.** Uncollected 2021 Network Administrative Fees (line 3b x line 4) \$ \_\_\_\_\_

**6.** Payment Due: (Amount on line 5) Date of ACH credit \_\_\_\_\_ or Check \_\_\_\_\_

*(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 \_\_\_\_\_

*Submit completed form to:* N7Form@nacha.org

*Submit payment. Payment via ACH credit preferred:*

The ACH 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 (2021)).

If sending a check, please make the check payable to Nacha and mail to: Nacha, Attn: Finance Department, 2550 Wasser Terrace, Suite 400, Herndon, VA 20171.