OBLIGATIONS OF ORIGINATORS

2019
ACH Operating Rules- NACHA
  ◦ A series of contract law that is made binding by agreements.

Regulation E
  ◦ Carries out the purpose of the Electronic Fund Transfer Act which establishes the basic rights, liabilities and responsibilities of consumers.

  ◦ Provides the regulatory foundation for use of the ACH Network by Federal Government Agencies.

USA Patriot Act
  ◦ Providing appropriate tools required to intercept and obstruct international terrorism.

UCC4A
  ◦ Deals with certain funds transfers not subject to Reg E or the Electronic Funds Transfer Act. Includes Wholesale Credits.
Participants in the ACH Network

**Originator**

The Originator is the entity that agrees to initiate ACH entries into the payment system according to an arrangement with a Receiver. The Originator is usually a company directing a transfer of funds to or from a consumer's or another company's account. The term “Company" is intended to be representative of the Originator of electronic ACH entries and does not imply exclusion of other types of organizations.

**Originating Depository Financial Institution**

The Originating Depository Financial Institution (ODFI) is the institution that receives the payment instructions from Originators and forwards the entries to the ACH Operator. A DFI may participate in the ACH as a Receiving Depository Financial Institution (RDFI) without being an ODFI; however, if a DFI chooses to originate ACH entries, it must also agree to act as an RDFI.

**Automated Clearing House Operator**

An Automated Clearing House (ACH) Operator is the central clearing facility, operated by a Federal Reserve Bank (FRB) or a private organization, that receives entries from ODFIs, distributes the entries to appropriate RDFIs, and performs the settlement functions for the affected financial institutions.
Participants in the ACH Network

Receiving Depository Financial Institution

The Receiving Depository Financial Institution (RDFI) is the DFI that receives ACH entries from the ACH Operator and posts them to the accounts of its depositors (Receivers).

Receiver

A Receiver is a natural person or an organization that has authorized an Originator to initiate an ACH entry to the Receiver's account with the Receiving DFI.
ACH Flow Chart

RECEIVER
(Customer, Employee or Company)

ORIGINATOR
(Customer, Employee or Company)

ACH OPERATOR

RECEIVING DEPOSITORY FINANCIAL INSTITUTION

ORIGINATING DEPOSITORY FINANCIAL INSTITUTION
ACH Origination

Three Basic Applications

- Direct Deposit
  - Payroll Direct Deposit, Bonus, Reimbursements
- Direct Payment
  - Rent, insurance payments, monthly dues or recurring bills
- Corporate Entries
  - Vendor, Disbursements, Cash Concentration
Direct Deposit

Customer (receiver) provides the bank account information either verbally or in writing.

Authorization must be “clear and readily understandable”, or is not considered a valid authorization.

Written authorization must be kept by the originator for two years after termination.

To be available to the receiver’s account the morning of the effective date, items are to be sent to the ACH Operator two days before the effective date.

5:00 p.m. Rule: If the file is made available to the RDFI by 5:00 p.m. on the day prior to effective date, it must be made available by the opening of business on effective date.
Direct Payments

Customer (Receiver) provides bank account information in writing.

Authorization must be “clear and readily understandable”, or is not considered a valid authorization.

Written authorization must be kept by the Originator for two years after termination.

To be available to the Receiver’s account on the morning of the effective date, items are to be sent to the ACH Operator one day before the effective date.
Secure Transmission

Transmission of File
- Must be through BusinessLink or Direct Send if authorized through CTS.

Must use Commercially Reasonable Level of Encryption
- Commercially reasonable level of security must comply with current, applicable regulatory guidelines.
- Cannot use unsecure email.

Transmissions or exchanges of banking information over an Unsecured Electronic Network by means of voice or keypad inputs from a wire line or wireless telephone to a live operator or voice response unit are not subject to the requirement.
Company Name Identification

The Rules specifically require the Originator to populate the Company Name Field with the name by which it is known to and readily recognized by the Receiver of the entry.

- This name could be your “doing business as”
Authorization

RECEIVERS (Consumer)
◦ Receiver’s authorization for entries, and copies of such authorizations are provided to the Receiver in accordance with the requirements of the NACHA rules.
◦ A Receiver can request copies of the authorization they signed through the banking system up to two years after the termination of the ACH. So the Originator must keep copies for the required time period.
◦ Authorization must be “clear and readily understandable”, or is not considered a valid authorization.

Receivers (Non-Consumer)-CCD – CTX – IAT
◦ ACH Originator required to provide proof of authorization to the ODFI within 10 Banking Days of receiving the written request. Can be provided in two different ways
◦ 1-Accurate record of Authorization
◦ 2-Provide Contact Information. At a minimum of
  ◦ The Originators Name
  ◦ The Originators phone number or email address that can address inquiries regarding authorization of the entry.
Risk Management
Originators/Third Party Senders/
Third Party Service Providers

The NACHA Rules provide that each ODFI has the right to:

- Terminate or suspend for breach of the Rules
- To audit to ensure compliance with the agreements and the Rules.
- Assess the nature of ACH activity and the risks it presents.
- Monitor origination and return activity
  - Multiple settlement dates
  - Enforce exposure limits
  - Types of transactions that may be originated.

- Data Passing Rule
  - 1- prohibits an ODFI from disclosing the Receiver's account number or routing number to any Third Party for such Third Party's use, directly or indirectly, for initiating debit entries not covered by the original authorization
  - 2- requires an ODFI to ensure that the Originator and any Third Party Service Provider acting on behalf of the Originator or ODFI not to 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 debit Entry that is not covered by the original authorization
ACH Security Framework

Establishes minimum data security obligations for ACH Network participants to protect ACH data throughout its lifecycle.

- **Protection of Sensitive Data and Access Controls**
  - Non-consumer Originators, Participating DFIs, Third Party Service Providers and Third Party Senders will be required to establish, implement, and as appropriate, update security policies, procedures and systems related to initiation, processing and storage of entries.
    - (1) Protect the confidentiality and integrity of Protected Information
    - (2) Protect against anticipated threats or hazards to the security of integrity of Protected Information
    - (3) Protect against unauthorized use of Protected Information that could result in substantial harm to a natural person.
  - **Phase I** - Originators and Third-Parties with annual ACH volumes greater than 6 million in 2019 must protect account numbers by rendering them unreadable when stored electronically (effective June 30, 2020)
  - **Phase 2** - Originators and Third-Parties with annual ACH volumes greater than 2 million in 2019 must protect account numbers by rendering them unreadable when stored electronically (effective June 30, 2021)

- **Self-Assessment**
  - Requires each Participating DFI, Third-Party Service Provider and Third Party Sender to verify that it has established, implemented, and updated the data security policies, procedures, and systems required by the ACH Security Framework.

- **Verification of Third-Party Senders and Originators**
  - Requires that an ODFI use a commercially reasonable method to determine the identity of each non-consumer Originator or Third-Party Sender with which the ODFI enters into an Origination Agreement.
Corporate Account Takeover Rule

An RDFI that reasonably suspects that a credit entry is unauthorized is exempt from the requirement of making the credit available to the Receiver for withdrawal no later than the settlement Date of the Entry.

RDFI has additional time to investigate a Suspicious credit prior to making funds available to Receiver if suspect credit is not authorized.

- RDFI must promptly notify ODFI if suspect credit not made available to Receiver
Same Day ACH

- Submit files of same-day ACH payments for Credits and Debits
  - Files received by the Federal Reserve by 9:30 AM. Settlement will occur at 1:00 PM
  - Files received by the Federal Reserve by 1:45 PM. Settlement will occur at 5:00 PM.
  - All RDFI’s are required to accept and process Same Day ACH payments
  - Transaction limit of $25,000.00 or less
  - No IAT transactions
  - RDFI must make credits available to later than 5:00PM local time.

- September 20, 2019 – RDFI must make credits available by 1:30 PM local time that are processed in the first Same Day ACH window (9:30 AM Central time)

- March 20, 2020 – Same Day transaction limit is increased to $100,000 or less

- September 18, 2020 – Same Day files can be received by the Fed up to 3:45 PM. Settlement will occur during end of day processing.*
  - *Same Day cutoff time extended contingent upon changes to Federal Reserve’s National Settlement Service approval.

- Additional fee will apply for this premium service
  - U.S. Treasury began participating in Same Day Originating and Receiving on September 15, 2017
SEC CODES

ARC – Accounts Receivable Entry
BOC - Back Office Conversion
CCD – Cash Concentration & Disbursement
CIE - Customer Initiated Entry—Credit entry initiated by or on behalf of the holder of a Consumer Account to the Non-consumer Account of a Receiver. Bill payment from consumer to Business.
COR – Notification of Change
CTX - Corporate Trade Exchange
POP – Point of Purchase Entry
POS - Point of Sale Entry
PPD – Prearranged Payment & Deposit
RCK – Re-presented Check Entry
REM- Worker Remittance Payments
SHR – Shared Network Transaction
TEL – Telephone Initiated Entry
WEB – Internet Initiated Entry
XCK - Destroyed Check Entry

IAT- International ACH Transactions
  ◦ Consumer and non-consumer international payments
  ◦ These codes determine time frame for returns and return reason codes. Also if a WSUD form is required.
  ◦ Different Rules also apply by SEC Code.
Transaction Codes for Checking

Checking Credit
- 21-Automated Return or NOC for original transaction codes 22, 23 and 24.
- 22-Automated Deposit
- 23-Prenote
- 24-Zero dollars with remittance data (CCD, CTX)

Checking Debit
- 26-Automated Return or NOC for original transaction codes 27, 28 and 29
- 27-Automated Payment
- 28-Prenote
- 29-Zero dollars with remittance data (CCD, CTX)
Transaction Codes for Savings

Savings Credit
- 31-Automated Return or NOC for original transaction codes 32, 33 and 34
- 32-Automated Deposit
- 33-Prenote
- 34-Zero dollars with remittance data (CCD, CTX)

Savings Debit
- 36-Automated Return or NOC for original transaction codes 37, 38 and 39
- 37-Automated Payment
- 38-Prenote
- 39-Zero dollars with remittance data (CCD, CTX)
Transaction Codes for General Ledger

General Ledger Credit
- 41-Automated Return or NOC for original transaction codes 42, 43 and 44
- 42-Automated general ledger deposit (credit)
- 43-Prenote
- 44-Zero dollars with remittance data (CCD, CTX)

General Ledger Debit
- 46-Automated Return or NOC for original transaction codes 47, 48 and 49
- 47-Automated general ledger payment (debit)
- 48-Prenote
- 49-Zero dollars with remittance data (CCD, CTX)
Transaction Codes for Loan Accounts

Loan Account Credit
- 51-Automated Return or Notification of Change
- 52-Automated Loan Account Deposit
- 53-Prenotification of Loan Account Credit
- 54-Zero dollar with remittance date (CCD & CTX entries only)

Loan Account Debit
- 55-Automated Loan Account Debit
- 56-Automated Return or Notification of Change
Return Entries

Notification of change
- Non-dollar-correction from live item or prenote file. Has correcting information on ABA/Routing number or Account number or type of account.
- Corrections must be within 6 days or prior to sending another transaction.
  - For Web and Tel – Recurring entries must be corrected prior to sending another transaction.
- Return from an RDFI that cannot accept entry. Entry cannot be reinitiated.
  - The ODFI may refuse an NOC containing incorrect information or not all of the required information. The ODFI must refuse within 15 calendar days of receipt of the original NOC.

Non-posted Items
- Dollar amounts being returned.
  - 24-hour return on account closed, invalid account number or insufficient funds-uncollected funds.
  - Depending on return reason code. May be reinitiated or may need to be handled manually outside of the ACH system.

Consumer may return an item for up to 60 days with certain return reason codes.
WSUD required for R10, R07
R05-Unauthorized Debit Entry to Consumer Acct using Corporate Sec Code
**R08-Stops all payments until re-initiation has been authorized by the receiver.**
R07-Revokes authorization.
R10-Used for Unauthorized transactions. (Consumer)
Return Reason Codes – 24 hour Deadline- All SEC CODES

R01-Insufficient Funds- Can be submitted a total of three times.
  ◦ Available balance not sufficient to cover the amount of the debit entry.

R02-Account Closed
  ◦ Previously active account has been closed

R03-No Account-
  ◦ Account number structure is valid but doesn’t match individual.

R04-Invalid Account-
  ◦ Account number structure not valid.

R08-Stop payment-Need subsequent authorization from customer to resubmit.
  ◦ Receiver requests stop of a single entry. Does not stop all future payments.

R09-Uncollected Funds- Can be submitted a total of three times.
  ◦ Sufficient balance exists, but uncollected items brings balance below amount of debit entry.

R11 – Check Truncation Entry Return

R12-Account sold to another financial institution

R14 – Representative Payee Deceased or Unable to continue in that capacity

R15 – Beneficiary or Account Holder (Other than a Representative Payee) deceased

R16-Account Frozen-Funds unavailable due to action by the RDFI or other legal action. Also used for OFAC-related returns
Return Reason Codes - 24 hour Deadline - All SEC CODES

R17 – File Record Edit Criteria
  ◦ June 21, 2019 – expand File Record Edit Criteria return to be used for returning questionable, suspicious or anomalous transactions

R20 - Non-Transaction Account
  ◦ Policies/regulation restrict activity to account indicated

R21 - Invalid Company Identification

R22 - Invalid Individual ID Number

R23 – Entry Declined by the Receiver
  ◦ Receiver refuses credit entry because of one of the following conditions:
    ◦ Minimum amount required by Receiver has not been remitted.
    ◦ Exact amount required has not been remitted.
    ◦ Account subject to litigation and Receiver will not accept transaction.
    ◦ Acceptance of transaction results in overpayment.
    ◦ Originator is not known by Receiver.
    ◦ Receiver has not authorized the credit entry
  ◦ RDFI is excused from obligation to return a credit declined by Receiver for the following conditions:
    ◦ Insufficient funds available to satisfy the return, including due to any third-party lien or security interest
    ◦ Return is prohibited by legal requirements
    ◦ RDFI has a claim against the proceeds of the credit entry, including by offset, lien or security interest

R24 - Duplicate Entry
  ◦ Entry appears to be a duplicate. Trace number, date, dollar amount matches another entry.

R29 - Corporate Customer Advises Not Authorized
  ◦ RDFI has been notified by Receiver (non-consumer) that a specific entry was not authorized.

R39 - Improper Source Document or Source Document presented for payment
Return Reason Codes-
60 Day Return Time Frame

WSUD required to be signed at the RDFI before returning these Sec Codes. *Item must post to account before WSUD signed.*

  ◦ A CCD debit entry was transmitted to a consumer (receiver) account and was not authorized by the receiver.

R07-Authorization Revoked by Customer
  ◦ Consumer (receiver) previously authorized ACH payment and has revoked the authorization.

R10-Customer Advises Not Authorized
  ◦ Consumer (receiver) has advised RDFI that the Originator of the item is not authorized to debit account, improper source document, notice not provided or amount of entry not accurately obtained.

R53-Item and RCK Entry presented for payment
  ◦ In addition to an RCK Entry, the item to which the RCK Entry relates has also been presented for payment

If an item is returned for codes R07, R08 or R10, a subsequent authorization must be obtained from the customer prior to reinitiating

If an item is returned for code R05, the SEC code must be corrected and subsequent authorization must be obtained prior to reinitiating.
  ◦ R08-Payment Stopped- Contact must be made with customer and new authorization obtained before returned item can be re-initiated.
Return Reason Codes
Unspecified Return Time Frame

R06-Returned Per ODFI’s Request
- ODFI has requested the RDFI to return the ACH entry.
  - Optional to RDFI
  - ODFI indemnifies RDFI

R31-Permissible Return Entry
- CCD, CTX only. RDFI has been notified by ODFI that ODFI agrees to accept a return entry beyond normal return deadline.
Notification of Change Codes

C01-Incorrect Account Number
  ◦ Account number is incorrect or formatted incorrectly.

C02-Incorrect Transit/Routing Number
  ◦ Due to a merger or consolidation a once valid routing number must be changed.

C03-Incorrect Routing Number and Incorrect Account Number
  ◦ Due to a merger or consolidation the routing number and account need to changed.

C05-Incorrect Transaction Code
  ◦ An item which the RDFI determines should be posted to a different account type.
    ◦ Example: Sent as checking should be savings.

C06-Incorrect Account number and Incorrect Transaction Code
  ◦ The account number and Transaction code need to be corrected.

C07-Incorrect Routing number, Incorrect Account number, Incorrect Transaction Code
  ◦ The routing number, account number, and transaction code need to be changed.

C08-Incorrect Receiving DFI Identification (IAT only)

C09-Incorrect Individual Identification Number

C13-Addenda Format Error
  ◦ Information contained in the addenda record was unclear or formatted incorrectly.

C14-Incorrect SEC code for Outbound International Payment
  ◦ May only be used by a Gateway to request a change to the IAT format.
Dishonored Returns

The ACH rules provide the ODFI the right to dishonor a return if

- The return entry was untimely, therefore causing the ODFI or Originator to suffer a loss.
- The return entry contained incomplete or incorrect information.

The ODFI must dishonor a return within five banking days of the settlement date of the returned entry.

An RDFI may contest a dishonored return based on a dispute to timeliness within two banking day of the settlement date of the dishonored return.

- Or an RDFI may correct and resend a dishonored return within two banking days from the settlement date of the dishonored return.

Contact your ODFI for assistance.
Written Statement of Unauthorized Debit (WSUD)

The Receiver must execute a Written Statement with their RDFI when an ACH entry is claimed to be unauthorized or improper, or authorization has been revoked.

- The WSUD form requirement is determined by the Sec Code.

An ODFI may request in writing from the RDFI a copy of the signed WSUD form, for the originator up to one year from the date of the return.

- The RDFI has ten banking days to provide a copy of the WSUD form following the ODFI request.
- Written Statement Retention-The RDFI must keep a copy for one year after the settlement date of the adjustment entry.
WSUD Rules

Corporate Account
- CCD or CTX – May be returned next business day **only**. Return code R29
  - No WSUD form needed

- All other SEC Codes
  - *Returns that need to be made after next business day would require a WSUD form from the customer.*
Exceptions

REVERSAL FILES

◦ May reverse a file or an individual item to correct an error if initiated to the ACH Operator in time to be received for posting no later than five days from the original posting date.
◦ R06- ODFI indemnifies RDFI if returned per their request.
◦ Must reverse original amount only.
◦ Dishonored Returns and Contested Returns for an Unintended Credit to a Receiver.
◦ An unintended Credit is defined as
  ◦ 1- A debit (withdrawal) Erroneous Entry and subsequent credit (deposit) both transmitted to a Receiver’s account. The debit returned and the credit posted and available to the Receiver.
  ◦ 2- A credit (deposit) Erroneous Entry and subsequent debit (withdrawal) reversing entry transmitted to the Receiver’s account. The credit is posted and available to the Receiver, and reversing debit returned.
◦ ODFI may dishonor the return if this results in unintended credit to the Receiver.
◦ RDFI may Contest the Dishonored Return if
  1-Returned both entries
  2-Unable to recover funds from the Receiver.
Reinitiation of Entries

Must contain identical content of original entry
- Company Name, Company ID, Amount

Company Entry Description field in the Batch Header Record must contain
- RETRY PYMT
- R03 and R04 returns are not eligible for reinitiation

New Rule

January 1, 2019 - An entry may be reinitiated up to 2 times.
Prenotification

Non-dollar item sent to check validity of information.
- Prenotifications are not required
  - Live payment may be sent on the Third Banking Day following the settlement date of the prenote.
    - Unless an NOC is received.

Must be returned by the RDFI within two banking days of the settlement date if any information is incorrect.
- Make necessary changes and resubmit.

May be returned from the ACH Operator as unable to process.
- Usually has invalid routing number.
Collection of Return Fees

To enable Receivers to identify Return Fee Entries

- Originators are required to include the exact words “RETURN FEE” in all capital letters in the Company Entry Description field of the Company Batch Header Record.

- Originator will be required to identify itself in the Company Name field using the identical name that was used in the underlying ACH debit.
  - If the underlying transaction is a check, the Originator must identify itself with the name by which it is known and recognized by the Receiver. Also must carry the check serial number (ARC, BOC, POP, RCK) in the Individual Identification Number field of the Return Fee Entry.

- Originator can originate only one Return Fee Entry related to a transaction.
  - Regardless of the number of times the original transaction is returned.

- A Return Entry Fee that is authorized by notice MUST have a settlement date that is no later the 45 days after the settlement date of the ACH Return Entry or the receipt of the return of a check.
Aggregation of Transactions

The Rules do not permit aggregation of transactions under the POS or MTE codes. Each time an ACH–linked card or other similar ACH service that can be used at multiple payees is used by a consumer at an electronic terminal in a retail location, the ODFI must submit a separate ACH entry that is properly formatted. Multiple transactions at one or more electronic terminal may NOT be aggregated in a single POS or MTE entry.

Transactions may be aggregated under PPD or WEB SEC codes for a properly authorized ACH transaction that represents a single payment on a separate account regardless of whether there have been multiple charges by the consumer to that account provided that each such account covers at least 14 days of transactions.
PPD vs. CCD

PPD
- May be a credit or debit application to a consumer account.
  - Credit applications would include payroll, interest, pension, dividends, etc.
  - Debit applications would include insurance premiums, mortgage or installment loan payments, club dues, utility payments.

CCD
- May be a credit or debit application where funds are either distributed or consolidated between corporate entities.
  - Available with one line of addenda.
    - Addenda is supplemental data that identifies or provides information to the RDFI and Receiver.
  - Returns are covered under UCC4A—only 24-hour time frame to return item.
WEB - Debits

This is used for the origination of Debit entries (either recurring or single entry) to a consumer’s account pursuant to an authorization that is obtained from the Receiver via the Internet or a Wireless Network.

Commercially Reasonable Security. Originator is required to employ
- Level of Security to comply with current, applicable regulatory guidelines
- Commercially Reasonable fraudulent transaction detection system to screen entries.
- Commercially Reasonable procedures to verify that routing numbers are valid.
- Commercially Reasonable methods of authentication to verify the identity of each Receiver.
- January 1, 2020 - Commercially Reasonable methods to validate account information

Conduct annual audits and obtain a copy of Companies internal audit to ensure that the financial information obtained from Receivers is protected by security practices and procedures of
- 1. physical security to protect against theft, tampering or damage.
- 2. personnel and access controls to protect against unauthorized access and use.
- 3. network security to ensure capture, storage and distribution.
WEB Credits for P2P Entries

This is used for the origination of Credit entries (either recurring or single entry) between consumers.

- P2P entries must be WEB entries, regardless of how the payment is initiated.
- Originator is not required to have an origination agreement.
  - No authorization is required by the Receiver.
  - Risk Management functions are not required of the ODFI.
    - Risk Management requirements must be fulfilled for Third Party Senders acting on behalf of consumer Originators.
- Must identify the sender (Originator) of the P2P payment within the Individual Identification Number field of the Entry Detail Record
  - The consumer’s ODFI or TPSP must identify themselves within the Company Name field of the Company/Batch Header Record.
- Company Entry Description within the Company Batch Header must identify the P2P transaction in a way that is meaningful to the consumer.
- Can have up to 80 characters of plain-text remittance information.
Originators offering mobile payments must use the WEB application.

Originators of mobile payments must apply the following provisions to the initiation of mobile payments:

- Use a fraudulent transaction detection system
- Verify the identity of each receiver
- Verify the validity of routing numbers
- Perform an annual data security audit
Return Reason Codes Unique For Web

May be returned up to 60 days from the settlement date. WSUD required to be signed at the RDFI before item is returned.

- R10-Customer Advises Not Authorized
- R07-Authorization Revoked.

To ensure compliance with all Internet Initiated/Mobile Entries: Refer to (OG 245-259) NACHA Rule Book.
This is used for the origination of a debit transaction to a consumer’s account via telephone.

Originator must obtain consumers authorization for a single entry by

- Tape Record the consumer’s oral authorization
- OR
- Provide in advance of the settlement date of the entry written notice to the consumer that confirms the oral authorization.

(OG 239-245) for specific requirements- NACHA Rule Book

- This type of transaction may only be originated when there is either
  - An existing relationship between the Originator and the Receiver; or
  - No existing relationship between the Originator and the Receiver, but the receiver has initiated the phone call.

- Must be able to reproduce the recorded oral authorization for later reference for a period of two years from the date of Authorization for Single entries. For recurring, two years from the Termination or Revocation of Authorization.

- Originator must use commercially reasonable procedures to verify the routing number is valid, and to verify the identity of the Receiver.
TEL Recurring Transactions

The NACHA Rules permit recurring debit entries to be originated by telephone using the TEL Entry SEC Code.

- May be initiated only when there is an existing relationship between the Originator and the Receiver or the Receiver initiates the telephone call to the Originator.

Authorization requirements for recurring TEL entries may be satisfied if the Originator

- Creates a recording of the oral authorization of the Receiver that satisfies the requirements below, including via a live operator or automated voice response unit
- Sends a written copy of the authorization to the Receiver prior to the settlement date of the first Entry originated in accordance with the authorization.

The Oral authorization must:

- Be readily identifiable as an authorization of a recurring transfer from the Receiver’s account
- State the terms of the recurring transfer clearly and in readily understandable terms
- Evidence of the Receiver’s identity
- Evidence of the Receiver’s assent to the authorization

Must be able to reproduce the recorded oral authorization for later reference for a period of two years from the Termination or Revocation of Authorization

January 1, 2019 - Revocation language must be included as part of the authorization.

For Specific requirements (OR 21-23) NACHA Rule Book
Return Reason Codes
Unique For TEL

May be returned up to 60 days from the settlement date. WSUD required to be signed at the RDFI before item is returned.
- R10-Customer Advises Not Authorized
- R07-Authorization Revoked by Customer
Identification of Business Checks Ineligible for Conversion For ARC or POP

Eligibility For Conversion

- **Auxiliary-On-Us-Field**-This amendment will modify the ARC and POP applications to stipulate that checks drawn on business accounts that contain an Auxiliary On-Us-Field in the MICR line would not be eligible for conversion.

- **Dollar Limit**-Check may not be in the amount greater than $25,00.00 to be converted.

  - *Ach Operators will return any ARC or POP entry in the amount greater than $25,000.00 as R19.*
Identification of Business Checks Ineligible for Conversion

R39-Improper Source Document
- Will be used by the RDFI when it determines that the source document used for the ARC, BOC or POP entry was improper.
- A WSUD form will *not* be required.
- Must be returned next business day.
ELECTRONIC CHECK APPLICATION – NO AUTHORIZATIONS NOTICE AT POINT OF PURCHASE

This is a method of payment for the in-person purchase of goods or services by consumers.

- A single entry debit initiated by the Originator based on a written authorization and account information drawn from the source document (a check) obtained from the consumer at the point of purchase.
  - The source document must be voided and returned to the consumer at the Point of Purchase.
  - The source document is used to collect the consumer’s routing number, account number and check serial number to generate the ACH debit entry to the consumer’s account. Must be machine read.
  - Originator (merchant) must provide the Receiver a receipt that contains information relating to the entry as required by the rules.
  - Checks drawn on business accounts that contain an Auxiliary On-Us-Field in the Micr Line not eligible for conversion.
  - Checks in the amount greater the $25,000.0 not eligible for conversion.

Source Document Eligibility

(OG 218-225) NACHA Rule Book
Return Reason Codes
Unique for POP

May be returned up to 60 days from the settlement date. WSUD required to be signed at the RDFI before item is returned.

R39-Improper Source Document
  ◦ No WSUD required. 24 hour return time frame. The source document used is not an eligible business check.

R37-Source Document Presented for Payment
  ◦ The source document to which the POP entry relates has been presented for payment.

R10-Customer Advises Not Authorized or Improper Source Document
  ◦ Account owner did not authorize the POP entry or the source document used in the POP entry was not eligible.

R07- Not a valid return on POP entries.
Unauthorized Entry Fee

- The ODFI will pay the RDFI for ACH debits that are returned unauthorized.
  
The ODFI will pay $4.50 for any Originated Debit Entry returned for Return Reason Codes of R05, R07, R10, R29 or R51.
  
The RDFI will receive credit of $4.50 for any debits returned with Return Reason Codes of R05, R07, R10, R29 or R51.
  
These fees will be passed to the ODFI and RDFI via the Federal Reserve.
ELECTRONIC CHECK APPLICATION – NO AUTHORIZATIONS-NOTICE PROVIDED ON BILLING STATEMENT OR COUPON

This enables the Originator to convert a single entry ACH debit on a consumer check received via the US mail or delivery service, at a drop box location, or in person payment of a bill at a manned location for the payment of goods or services.

- The source document (a check) is used to collect the consumer’s routing number, account number, check serial number and dollar amount for the ACH transaction. Source documents must be securely stored using commercially reasonable methods.

- Originators must ensure that the name of the Originator (payee of the source document) or the payee name indicated on the bill or invoice appears within the Company Name Field of the Company/Batch Header Record of the ARC entry.

- The check serial number of the source document to which the ARC entry relates must be placed within the Check Serial Number Field of the ARC Entry Detail Record.
ARC Notice Requirements

Safe Harbor Language

- When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction.
Return Reason Codes
Unique For ARC

May be returned up to 60 Days from the settlement date. WSUD required to be signed at the RDFI before item is returned.

R10-Notice Not Provided or Improper Source Document
- The Originator did not provide notice or the source document used in the ARC entry was improper.

R37-Source Document Presented for Payment
- The source document to which the ARC entry relates has been presented for payment.

R38-Stop payment on Source Document
- A stop payment order has been placed on the source document to which the ARC entry relates.

R39-Improper Source Document
- 24 HOUR RETURN DEADLINE – Source document used is not an eligible business check. No WSUD required.

R07-Not a valid return on ARC entries.
This enables the Originator to convert a single entry ACH debit on a consumer check received at the point-of-purchase or manned bill payment location during back-office conversion.

- Originators must accurately obtain the routing number, account number, check serial number, and dollar amount of the payment from the source document.
- Originator will be required to retain a reproducible, legible, image copy of the front of the source document for two years from the settlement date of the entry. Must send a copy of the front of the source document to the RDFI within ten banking days of written request, if request is received within two years from settlement date.
- Originator required to employ commercially reasonable methods to securely store all source documents and banking information relating to BOC entries until destruction.
- Originator will not present check for payment once it is used as a source document.
BOC Notice Requirements

The originator will be required, prior to the receipt of each check to be used as the source document to provide the Receiver with notice that states

◦ When you provide a check as payment, you authorize us either to use the information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction. For inquiries, please call <retailer phone number>.

◦ The notice will need to be posted in a prominent and conspicuous location and a copy of such notice will have to be provided to the Receiver at the time of the transaction.

◦ The provision of notice by the Originator at the point of purchase and the receipt of the source document from the receiver together will constitute authorization.
Return Reason Codes
Unique for BOC

May be returned up to 60 Days from the settlement date. WSUD required to be signed at the RDFI before item is returned.

R10-Notice Not Provided or Improper Source Document
◦ The Originator did not provide notice or the source document used in the BOC entry was improper.

R37-Source Document Presented for Payment
◦ The source document to which the BOC entry relates has been presented for payment.

R38-Stop payment on Source Document
◦ A stop payment order has been placed on the source document to which the BOC entry relates.

R07-Not a valid return on BOC entries.
ELECTRONIC CHECK APPLICATION – NO AUTHORIZATIONS

- Originator must provide clear and conspicuous notice of the check conversion policy.

Used by biller and retailers to collect paper checks returned as NSF or uncollected.

Allowed three trips total per check in the banking system.

Must give notification – can’t add fees to original check amount.
Return Reason Codes Unique for RCK

May be returned up to 60 days from the settlement date. WSUD required to be signed at the RDFI before item is returned.

R50-State Law Affecting RCK Acceptance
  ◦ The RDFI is located in a state that has not adopted Revised Article 4 of the UCC or the RDFI is located within a state that requires canceled checks to be returned to the Receiver.

R51-Item is Ineligible, Notice Not Provided, Signature Not Genuine, Item Altered or Amount Not Accurately Obtained.

R52-Stop Payment on Item
  ◦ A stop payment has been placed on the item to which the RCK entry relates.

R53-Item and Ach Entry Presented for Payment
  ◦ Both the item to which the RCK entry relates and the RCK entry have been presented for payment.

R07 and R10 not valid return on RCK entries.
  ◦ RCK has own code for these return reasons.
XCK Expansion

Previously used for clearing cash letter checks that have been lost or destroyed.

- A check missing part of the MICR line, but can be sufficiently repaired to create an ACH debit.
- A check in whole or part that is unreadable, obscured, or mutilated in a manner that prevents automated check processing or creation of an image that may be used to produce a “substitute check” under the Check 21 Act, but has an intact MICR line.
- A Check that does not pass standard quality tests for creation of an image that may be used to produce a substitute check under Check 21.

The use of XCK for the purpose of clearing these types of items will be optional for both ODFI’s and RDFI’s. RDFI’s retain their right to return XCK entries for any reason for up to 60 days following settlement date.
Healthcare Payments

Requires Originators of Health Care EFT transactions to populate the Company Entry Description field of the CCD Entry with the value “HCCLAIMPMT”.

◦ RDFI’S will be able to identify a CCD entry as a Health Care EFT Transaction.
  ◦ An RDFI must provide or make available all information contained within the Payment Related Information field of the Addenda Record transmitted with the Health Care EFT Transaction.

◦ The Originator is required to ensure that the CCD entry complies with the following formatting requirements, to provide clear identification of the source and purpose of the payment.
  ◦ Company Name
  ◦ Addenda Record and Payment Related Information Requirements for Health Care EFT Transactions.
    ◦ Populate the Payment Related Information Field of the addenda record with the ANSI ASC X12 Version 5010 835 TRN.
      ◦ TRN-Reassociation Trace Number-Used by Healthcare providers to reassociate the Health Care EFT Transaction with the electronic remittance advice.
      ◦ ERA-Electronic Remittance Advice
IAT

International ACH Transactions – debit or credit entry that is part of a payment transaction involving a financial agency’s office that is not located in the territorial jurisdiction of the United States.

◦ International payments are based on the geographical location of the financial agencies involved in the transaction instead of the location of the other parties to the transaction.

◦ Financial Agency—an entity that is authorized by applicable law to accept deposits or is in the business of issuing money orders or transferring funds

◦ An Office of a Financial Agency is involved in the payment transaction if-
  ◦ Holds an account that is credited or debited as part of the payment transaction.
  ◦ Receives payment directly from a person or makes payment directly to a person as part of the payment transaction.
  ◦ Serves as an intermediary in the settlement of any part of the payment transaction.
IAT

Originators will be responsible for ensuring that international ACH transactions are properly identified using the IAT Standard Entry Class Code.

Originators will need to conduct a thorough examination of all Receiver relationships to identify those transactions resulting in the transfer of funds to or from a financial agency outside the U.S. territorial jurisdiction.
IAT Defined Terms

Inbound Entry - Entry that originates in another country and is transmitted to the United States.

Outbound Entry - Entry that originates in the United States and is transmitted to another country.

Gateway Operator - Entry point to or exit point from the United States.
  - Can be financial institution or ACH Operator
IAT Exemptions

Effect of Illegality- A specific provision has been added that excuses a participating Depository Financial Institution from its obligations under the Rules to credit or debit an account or to transfer funds when such action would be in conflict with U.S. law.

Gateway must provide information to the RDFI of any inbound IAT that is blocked and/or rejected within 5 banking days.

Excused Delay-if suspect transactions are currently being reviewed and cannot be cleared by effective date.

- Article One- Section 1.5
  - Unauthorized Debits-excuses the RDFI from re-crediting the consumer for an unauthorized debit transaction, if the debit was in violation of an OFAC sanctions policy and OFAC requires the debit to be processed. The funds cannot be re-credited to the consumer without authorization from OFAC.

- Include in ACH Processing Agreement

Consumers Bank Statement-If information is received regarding the city, state, location and check serial number, the information must be provided on the consumer’s bank statement.
IAT

Travel Rule Data Requirements

The data elements listed below will be included & will correspond to the SWIFT message format field lengths.

◦ Name and physical address of the Originator
◦ Name and physical address of the Receiver (“Beneficiary”)
◦ Account number of Receiver
◦ Identity of the Receiver’s bank
◦ Foreign Correspondent Bank(s) name, Foreign Correspondent Bank ID number, and Foreign Correspondent Bank Branch Country Code
◦ Reason for the payment

Identification of Additional Parties

Gateway identification of the ultimate foreign beneficiary for a debit inbound IAT entry or the foreign party ultimately funding a inbound credit.

Identification of County Names

◦ Requires Originator, Third-Party Sender, ODFI, or Gateway transmitting an entry to identify any country within the entry by that country’s 2 digit alphabetic ISO County Code.
◦ Per the (ISO) 3166-1-alpha-2 code list.
IAT Addenda Records

Seven mandatory Addenda Records will accompany each IAT entry to convey the information listed above.

Two optional addenda records will be able to accompany an IAT entry. Maximum 160 characters (80 per addenda record).

A separate addenda record must be added to the payment for each Foreign Correspondent Bank that is involved with the transmission or exchange of an IAT entry.

A maximum of five Foreign Correspondent Bank addenda records may accompany an IAT entry.
IAT Screening Indicators

The IAT format will include two optional, single character fields with the Entry Detail Record to convey the results of voluntary OFAC screening on the transaction.

Inbound transactions
- First Field - results from Gateway Operator
- Second Field - Used by a Third-party Service Provider to convey screening results.

Value of “0” indicates the party conducting the screening has not found a potential blocked party on the SDN list.

Value of “1” indicates the potential presence of a blocked party.

The field will be space-filled if no screening conducted.
IAT Returns

Seven mandatory addenda records that accompany a forward IAT entry will be required to be transmitted with any IAT return entry.

One additional addenda record will be required with specific information related to the return. (return reason code, original entry trace number, etc)

Inbound IAT entries- All return entries have a 60 day return time frame.

Outbound IAT Entries – Is determined by the payment system rules of the foreign country & may exceed the 60-day return window defined by the U.S. system.
  ◦ Dishonored and Contested Returns not permitted for IAT entries.
IAT-Gateway Operator Return Codes

R16-Entry Returned Per OFAC Instruction
- OFAC has instructed the RDFI or Gateway to return the entry

R80-IAT Entry Coding Error-returned due to one or more of the following conditions
- Invalid DFI/Bank Branch Country Code
- Invalid DFI/Bank Identification Number Qualifier
- Invalid Foreign Exchange Indicator
- Invalid ISO Originating Currency Code
- Invalid ISO Destination Currency Code
- Invalid ISO Destination Country Code
- Invalid Transaction Type Code

R81-Non-Participant in IAT Program-returned because the Gateway Operator does not have an agreement with the ODFI to process IAT entries.

R82-Invalid Foreign Receiving DFI Identification- the reference used to identify the Foreign Receiving DFI of an Outbound IAT entry in invalid.

R83-Foreign Receiving DFI Unable to Settle-returned due to settlement problems in the foreign payment system.

R84-Entry not processed by Gateway Operator-For Outbound IAT entries, the entry has not been processed & is being returned at the Gateway Operator’s discretion because the processing of such entry may expose the Gateway Operator to excessive risk.

R85-Incorrectly Coded Outbound International Payment
OFAC

The US Treasury Department’s Office of Foreign Assets Control (OFAC)

- Administers economic sanctions and embargo programs that require assets and transactions involving interests of target countries, target country nationals and other specifically identified companies and individuals to be frozen.
- OFAC maintains and regularly updates a master list (SDN List) identifying known “blocked parties.” A current list may be found at www.treas.gov/offices/enforcement/ofac/.
- Compliance Hotline is – 800-540-OFAC.
Originators should be aware that they are subject to applicable U.S. law, including OFAC-enforced sanctions, when initiating ACH entries.

- Should not be acting on behalf of, or transmitting funds to or from, any blocked party subject to OFAC-enforced sanctions.
- Agreements between the ODFI and the Originator include a statement that the Originator acknowledges that it may not initiate entries that violate the laws of the United States.
- Originators should also be aware that their ODFI may from time to time temporarily suspend processing of a transaction for greater scrutiny that may result in delayed settlement or availability.
Vendor Payments

These payments are disbursed either by the U.S. Department of the Treasury or by other agencies with delegated or statutory disbursing authority.

The law applies to recurring and nonrecurring payments and appropriated and non-appropriated disbursements.

RDFI must provide this information to account holders upon request.
Rules Enforcement

The National System of Fines may be utilized for any alleged violation of the provisions of the NACHA Operating Rules.

A claim of a rules violation may be initiated by a party to an ACH transaction through the completion and submission of the Report of Possible ACH Rules Violation.

The National Association may undertake specific actions with respect to the monitoring and reporting of activity causing potential harm to Participating Depository Financial Institution or the Ach Network.

- An excessive rate of return must be resolved by the ODFI and its Originator, within 30 days or an initiation of rules enforcement proceedings may be initiated.
The National System of Fines

Allow NACHA to request key data from ODFIs for any Originator or Third-Party Sender that appears to exceed a rate of one percent for debit entries returned as unauthorized.

Define the circumstances under which NACHA may submit violations related to ODFI reporting requirements to the National System of Fines

- **Class 1 Violation** - A recurrence of a previous rules violation. The same infraction is committed by the same Originator that transmits through the ODFI within the one-year period following the Resolution Date of the initial rules violation.
  - First recurrence fine levied up to $1000.00
  - Second recurrence fine levied up to 2500.00
  - Third recurrence fine levied up to 5000.00
Class 2—Participating DFI has not responded to either the Notice of Possible ACH Rules Violation or the Notice of Possible Fine.

Participating DFI responds to either notice that it does not intend to correct the rules violation.

Failure to respond completely and accurately, within the proper time frame.

The time frame and Resolution Date asserted by a Participating DFI as necessary to resolve the problem is excessive.

The violation causes excessive harm to one or more participating DFIs or the ACH Network

Is the fourth or subsequent recurrence of the same violation.

- A fine against the respondent Participating DFI in an amount up to $100,000 a month until the problem is resolved may be assessed.
The National System of Fines

Class 3 - In any case where a Class 2 Rules Violation has continued for three consecutive months.

◦ A levy of a fine may be imposed against the respondent Participating DFI of up to $500,000.00 per month until the problem causing the violation is resolved.

Suspension - It is determined that there is a Class 3 Rules Violation that relates to a specific Originator or Third Party Sender. The ACH Rules Enforcement Panel may direct the ODFI to suspend the Originator or Third Party Sender from originating. Any such suspension shall only be lifted by the ACH Rules Enforcement Panel.
Unauthorized Return Rate

An inquiry process has been established by the Rules Enforcement Panel to evaluate origination activity that reach return rate levels. (OR 36-38) 2016 NACHA Rule Book

Debit Entries Returned (R05, R07,R10,R29 and R51) have a return rate level of 0.05 percent

Debit entries Returned (Ro2,R03,Ro4) have a return rate level of 3.0 percent

Debit entries Returned for all other reasons (Excludes RCK) have a Return Rate Level of 15.0 percent

- An excessive rate of return must be resolved by the ODFI and its Originator, within 30 days or an initiation of rules enforcement proceedings may be initiated
Third Party Senders

Must conduct an annual audit of compliance, with the provisions of the NACHA Operating Rules audit criteria before December 31\textsuperscript{st} of each year.

Supporting documentation must be retained for a period of six years from the date of the audit and must provide such documentation to the National Association upon request.

- Proof of an audit will be requested only when deemed reasonably necessary by the National Association.

Third Party Senders are obligated to

- Monitor, assess and enforce limitations on their customer’s origination and returns with the same obligations that are required of the ODFI under the NACHA Rules.
Third Party Senders

Incomplete Transactions

- Allows for the return of a debit Entry to a Consumer Account within 60 days of the Settlement Date for an “incomplete Transaction” which is defined as a transaction for which a Third Party Sender debits a consumer’s account to collect funds, but does not complete the corresponding payment to the party to which payment is owed
Third-Party Sender Registration

- All ODFI’s are required to register all Third-Party Sender Customers.
  - OR a statement that the ODFI does not have Third-Party Sender customers
  - Failure to Register is a Class 2 Rules Violation

ODFI must provide the following basic information on each Third-Party Sender

- The ODFI’s name and contact information
- The name and principal business location of the Third-Party Sender
- The ODFI’s routing number used in ACH transactions originated for the Third-Party Sender
- The Company Identification(s) of the Third-Party Sender

Information is required within 30 days of originating the first ACH entry for the customer.

- If ODFI becomes aware of an unregistered customer they have 10 days after being aware to register the customer.
- Any change on a registered customer must be made within 45 days of the change. Including ending the relationship

NACHA may request additional information in a written request

- The ODFI has 10 days to provide the following information
- Any doing-business-as names, taxpayer identification number(s) and street and website address(es) of the Third-Party Sender
- The name and contact information for the Third-Party Sender’s contact person
- The approximate number of Originators for which the Third-Party Sender transmits entries
- A Statement as to whether the Third-Party Sender transmits debit entries, credit entries or both
Originator
because Employer is legally obligated to pay its employees

Third-Party Service Provider
performing function of creating ACH file on behalf of the Originator & transmits to ODFI

ODFI
transmits file to Fed

ACH Operator

Relationship exists between Employer and Bank

Employer’s account with Mega Bank is credited/debited for settlement of ACH transactions

Contractual agreement exists between Bank and Employer that binds Employer to the NACHA Operating Rules

Obtain the Electronic Business Services Agreement

Example #1
Third-Party Service Provider AND
Third-Party Sender

**Employer**

**ABC Payroll**

**Mega Bank**

**Fed**

**Employees**

**Originator** because Employer is legally obligated to pay its employees

**Third-Party Service Provider**

performing function of creating ACH file on behalf of Originator & transmits to ODFI

**AND**

**Third-Party Sender**

acts intermediary between Originator and ODFI

The Third Party Sender (rather than the Originator) has the Origination Agreement with Financial Institution

- No relationship between Employer and Bank
- No contractual agreement between Employer and Bank for ACH origination
- ABC Payroll’s account at Mega Bank is credited/debited for ACH transactions
- ABC Payroll serves as intermediary between Employer and Bank
- Obtain the Electronic Business Services Agreement (ODFI/Third-Party Sender)

Example #2
Third-Party Service Provider AND Third-Party Sender

Originator because Employer is legally obligated to pay its employees

Third-Party Service Provider
performing function of creating ACH file on behalf of Originator & transmits to ODFI

AND

Third-Party Sender
acts intermediary between Originator and ODFI no contractual agreement exists between ODFI and Originator

ODFI transmit file to Fed

• Relationship between Employer and Bank
• No contractual agreement between Employer and Bank for ACH origination
• Employers account at Mega Bank is credited/debited for ACH transactions
• ABC Payroll serves as intermediary between Employer and Bank
• Obtain the Electronic Business Services Agreement (ODFI/Third-Party Sender)
Third-Party Service Provider AND Third-Party Sender

- **Originator**
  - Employer
  - because Employer is legally obligated to pay its employees

- **Third-Party Service Provider**
  - ABC Payroll
  - performing function of creating ACH file on behalf of Originator & transmits to ODFI

- **Third-Party Sender**
  - acts intermediary between Originator and ODFI
  - no contractual agreement exists between ODFI and Originator

- **ODFI**
  - Fed Operator
  - transmit file to Fed

- **Receiver**
  - Employees

**Example #4**

- No relationship between Employer and Bank
- No contractual agreement between Employer and Bank for ACH origination
- Employers account at Mega Bank is credited/debited for ACH transactions
- ABC Payroll serves as intermediary between Employer and Bank
- Obtain the Electronic Business Services Agreement (ODFI/Third-Party Sender) because serving as Third-Party AND Electronic Business Services Agreement because ABC Payroll is their own Originator