

Differentiating Unauthorized Return Reasons

EFFECTIVE DATE

April 1, 2021

RULE STATUS

Implemented

This rule better differentiates among types of unauthorized return reasons for consumer debits. This differentiation will give ODFIs and their Originators clearer and better information when a customer claims that an error occurred with an authorized payment, as opposed to when a customer claims there was no authorization for a payment. ODFIs and their Originators should be able to react differently to claims of errors, and potentially could avoid taking more significant action with respect to such claims.

"Not sure how to calculate the Unauthorized Return Rate?" [Download this resource](#)

Details

The rule re-purposes an existing, little-used return reason code (R11) that will be used when a receiving customer claims that there was an error with an otherwise authorized payment. Previously, return reason code R10 was used a catch-all for various types of underlying unauthorized return reasons, including some for which a valid authorization exists, such as a debit on the wrong date or for the wrong amount. In these types of cases, a return of the debit still should be made, but the Originator and its customer (the Receiver) might both benefit from a correction of the error rather than the termination of the origination authorization. The use of a distinct return reason code (R11) enables a return that conveys this new meaning of “error” rather than “no authorization.”

Effective date: Phase 1 – April 1, 2020; effective date Phase 2 – April 1, 2021.

Effective Dates

The rule becomes effective in two phases. On April 1, 2020, the re-purposed return code became effective, and financial institutions will use it for its new

purpose. Other provisions in the rules that apply to unauthorized returns became effective at this time with respect to R11s – i.e., Unauthorized Entry Return Rate and its relationship to ODFI Return Rate Reporting obligations.

On April 1, 2021, the re-purposed R11 return code becomes covered by the existing Unauthorized Entry Fee. This part of the rule will be implemented by the ACH Operators, and as with the current fee, is billed/credited on their monthly statements of charges.

As noted in [ACH Operations Bulletin #4-2020](#), RDFIs that are not ready to use R11 as of April 1, 2020 should continue to use R10. RDFIs should implement R11 as soon as possible.

Technical

Return Reason Code R10 is now defined as “Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver’s Account” and used for:

- Receiver does not know the identity of the Originator
- Receiver has no relationship with the Originator
- Receiver has not authorized the Originator to debit the account
- For ARC and BOC entries, the signature on the source document is not authentic or authorized
- For POP entries, the signature on the written authorization is not authentic or authorized

Return Reason Code R11 is now defined as “Customer Advises Entry Not in Accordance with the Terms of the Authorization.” It will be used by the RDFI to return an entry for which 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. This includes:

- The debit Entry is for an incorrect amount
- The debit Entry was debited earlier than authorized

- The debit Entry is part of an Incomplete Transaction
- The debit Entry was improperly reinitiated
- For ARC, BOC, or POP entries:
 - The source document was ineligible
 - Notice was not provided to the Receiver
 - The amount of the entry was not accurately obtained from the source document

R11 returns will have many of the same requirements and characteristics as an R10 return, and be considered unauthorized under the Rules

- Incorrect EFTs are subject to the same error resolution procedures under Regulation E as unauthorized EFTs
- RDFIs' effort to handle the customer claim and obtain a WSUD remain the same as with the current obligations for R10 returns
- The RDFI will be required to obtain the Receiver's Written Statement of Unauthorized Debit
- The return timeframe is 60 days
- R11 returns will be included within the definition of Unauthorized Entry Return Rate
- R11 returns will be covered by the existing Unauthorized Entry Fee
- The new definition and use of R11 does not include disputes about goods and services, just as with the current definition and use of R10

A key difference between R10 and R11 is that with an R11 return an Originator is permitted to correct the underlying error, if possible, and submit a new Entry without being required to obtain a new authorization.

- The new Entry must be Originated within 60 days of the Settlement Date of the R11 Return Entry

- Any new Entry for which the underlying error is corrected is subject to the same ODFI warranties and indemnification made in Section 2.4 (i.e., the ODFI warrants that the corrected new Entry is authorized)

Organizational changes have been made to language on RDFI re-credit obligations and written statements to align with revised return reasons, and to help clarify uses

- No changes to substance or intent of these rules other than new R10/R11 definitions
- Section 3.12 Written Statement of Unauthorized Debit
 - Relocates introductory language regarding an RDFI's obligation to accept a WSUD from a Receiver
 - Subsection 3.12.1 Unauthorized Debit Entry/Authorization for Debit Has Been Revoked
 - Includes invalid/inauthentic signatures for check conversion entries within description of an unauthorized debit;
 - Removes references to amount different than or settlement earlier than authorized
 - Includes "authorization revoked" (Note: continues to use return reason code R07)
 - Subsection 3.12.2 Debit Entry Not in Accordance with the Terms of the Authorization
 - Describes instances in which authorization terms are not met
 - Incorporates most existing language regarding improper ARC/BOC/POP entries; incomplete transactions; and improperly reinitiated debits
 - Incorporates language related to amounts different than or initiated for settlement earlier than authorized

- Subsection 3.12.3 – Retains separate grouping of return situations involving improperly-originated RCK entries that use R51
- Renumbering of other subsections
- Corrects a reference regarding RDFI’s obligation to provide copy of WSUD to “Settlement Date” rather than date of initiation
- Section 3.11 RDFI Obligation to Re-credit Receiver
 - Syncs language regarding an RDFI’s obligation to re-credit with re-organized language of Section 3.12
 - Replaces individual references to incomplete transaction, improper ARC/BOC/ POP, and improperly reinitiated debit with a more inclusive, but general, term “not in accordance with the terms of the authorization”
- Section 8.117 Written Statement of Unauthorized Debit definition
 - Syncs language regarding the use of a WSUD with new wording of Section 3.12

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Impact

Expected benefits

- Provides more granular and precise reasons for returns
 - ODFIs and Originators will have clearer information in instances in which a customer alleges “error” as opposed to “no authorization”
 - Corrective action is easier to take in instances in which the underlying problem is an error (e.g., wrong date, wrong amount)

- More significant action can be avoided when the underlying problem is an error (e.g., obtaining a new authorization, or closing an account)
- Allows collection of better industry data on types of unauthorized return activity

Potential impacts

- ACH Operator and financial institution changes to re-purpose an existing R-code, including modifications to return reporting and tracking capabilities
- RDFI education on proper use of return reason codes
- Education, monitoring and remediation by Originators/ODFIs
- Change in a 2-day return timeframe for R11 to a 60-day return timeframe; this could include system changes
- Inclusion of an additional return code within existing rules on ODFI Return Reporting and Unauthorized Entry Fees

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