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NOTICE OF AMENDMENTS  
TO THE  
2014 NACHA OPERATING RULES

September 30, 2014

**SUPPLEMENT #2-2014**

**1. ACH Network Risk and Enforcement**

*Effective Dates: January 1, 2015*

*September 18, 2015*

**2. Improving ACH Network Quality – Unauthorized Entry Fee**

*Effective Date: October 3, 2016*

**3. Minor Rules Topics**

*Effective Dates: August 22, 2014*

*January 1, 2015*

**4. Network Administration Fees**

*Effective Date: January 1, 2015*

# Supplement #2-2014 to the *NACHA Operating Rules*

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On August 22, 2014, NACHA's Voting Membership approved nine amendments to the *NACHA Operating Rules (Rules)*. The effective dates for the twelve topics covered by these rule changes range from August 22, 2014 to October 3, 2016. The effective date for each topic is listed below.

## ACH Network Risk and Enforcement

January 1, 2015:

- Third-Party Senders
- NACHA's Enforcement Authority

September 18, 2015:

- Return Rate Levels
- Reinitiation of Entries

## Improving Network ACH Quality – Unauthorized Entry Fee: October 3, 2016

## Minor Rules Topics

August 22, 2014:

- Clarification of Audit Requirements for Participating DFIs Reporting Network Administration Fees

January 1, 2015:

- Point-of-Sale (POS) Entries – Clarification of General Rule
- Return Fee Entry Formatting Requirements
- Entry Detail Record for Returns – Clarification Regarding Point of Purchase (POP) Entries
- Clarification of RDFI's Obligation to Recredit Receiver
- Clarification on Prenotification Entries and Addenda Records
- Clarification on Company Identification for P2P WEB (Internet-Initiated/Mobile) Credit Entries

## Network Administration Fees: January 1, 2015

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. To ensure compliance with the most current rules, this Supplement should be used in conjunction with the 2014 edition of the *Rules*.

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## ACH Network Risk and Enforcement

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*(Approved August 22, 2014 – Effective dates are noted below)*

### SUMMARY

The ACH Network Risk and Enforcement Rule (“Rule”) will improve the overall quality of the ACH Network by reducing the incidence of returned Entries and the associated costs, both financial and reputational, that such returned Entries impose on the ACH Network and its participants. The approach to reducing risk with this Rule is two-fold. First, the Rule expands existing rules regarding ODFIs’ and Third-Party Senders’ requirements for risk management and origination practices, such as return rate levels. Second, the Rule expands NACHA’s authority to initiate enforcement proceedings for a potential violation of the Rules related to unauthorized Entries. These changes also are expected to increase customer satisfaction with the ACH Network by reducing the volume of transactions subject to customer disputes. This Rule will:

- reduce the existing return rate threshold for investigation of unauthorized debit Entries from 1.0 percent to 0.5 percent;
- establish new return rate levels for: 1) administrative debit returns at 3.0 percent; 2) overall debit returns at 15.0 percent;
- establish a new inquiry process to review an Originator’s or Third-Party Sender’s origination activity, if a new return rate level is reached;
- define standards for the reinitiation of Returned Entries;
- explicitly apply certain risk management rules to Third-Party Senders; and
- expand NACHA’s authority to initiate enforcement proceedings for a potential violation of the Rules related to unauthorized Entries.

### KEY COMPONENTS OF RULE AMENDMENT

#### **A. Return Rate Levels** *(effective date September 18, 2015)*

##### *Reducing the Unauthorized Return Rate Threshold*

Over the past two years, concern about unauthorized transactions and poor origination practices and their adverse impact on RDFIs and the ACH Network has increased. This Rule will help address these concerns by reducing the current return rate threshold for unauthorized debit Entries (Return Reason Codes R05, R07, R10, R29, and R51) from 1.0 percent to 0.5 percent.

The Rule will not change any of the existing risk investigation or enforcement processes related to the unauthorized return rate threshold. An ODFI that has an Originator or Third-Party Sender that breaches the lower threshold will be subject to the same obligations and potential enforcement as currently set forth in the *Rules* for the existing return rate threshold for unauthorized debits.

##### *Establishing Return Rate Levels for Administrative Debit Returns and Overall Debit Returns*

This Rule establishes two new return rate levels in the *Rules* for other types of returns. First, a return rate level of 3.0 percent will apply to debit entries returned due to administrative or account data errors (Return Reason Codes R02 – Account Closed; R03 – No Account/Unable to Locate Account; and R04 – Invalid Account Number Structure). Second, a return rate level of 15.0 percent will apply to all debit entries (excluding RCK entries) that are returned for any reason. While some level of returns may be unavoidable, excessive administrative and total returns can be indicative of problematic origination

practices. These breakpoints will be useful tools to enable NACHA to look more closely at an Originator's or Third-Party Sender's origination practices to determine whether poor origination practices are leading to high return rates that should be reduced. It is important to note that return rate levels above 3.0 and 15% percent, respectively, will not automatically be considered *Rules* violations or result in *Rules* enforcement proceedings. Rather, a return rate above the respective level will be considered a starting point for a review of the Originator's or Third-party Sender's origination activity to determine if a reduction is warranted.

#### *Establishing Originator and Third-Party Sender Origination Inquiry and Review Process*

The Rule establishes an inquiry process, which is separate and distinct from a *Rules* enforcement proceeding, as a starting point to evaluate the origination activity of Originators and Third-Party Senders that reach the new administrative return and overall debit return rate levels. The identification of an Originator or Third-Party Sender with a return rate that is higher than the respective return rate level may trigger a review of the Originator's or Third-Party Sender's ACH origination procedures. The inquiry process will allow NACHA to consider the specific facts related to the Originator's or Third-Party Sender's ACH origination practices and activity. As part of the inquiry process, the ODFI may submit supplemental information that it deems relevant to this review. At the conclusion of the inquiry, NACHA may determine that no further action is required, or it may take the next step and recommend to the ACH Rules Enforcement Panel that the ODFI be required to reduce the Originator's or Third-Party Sender's overall or administrative return rate below the established level.

In this new role, the ACH Rules Enforcement Panel will be the final authority in deciding, after the completion of the inquiry, whether the ODFI should be required to reduce the Originator's or Third-Party Sender's overall or administrative return rate. The Panel will take several factors into consideration when deciding on next steps. After reviewing NACHA's recommendation, the Panel can decide either to take no action, at which point the case would be closed, or to have NACHA send a written directive to the ODFI, which would require the reduction of the Originator's or Third-Party Sender's administrative or overall return rate.

#### **B. Reinitiation of Entries** *(effective date September 18, 2015)*

Currently, Subsection 2.12.4 of the *Rules* implicitly prohibits the reinitiation of Entries outside of the express limited circumstances under which they are permitted under the *Rules*. This Rule makes this prohibition explicit. For additional clarity, the Rule includes common examples that would be considered reinitiating an Entry. The Rule also adds a specific prohibition against reinitiating a transaction that was returned as unauthorized. These examples are not intended to be exhaustive, but rather are illustrative. The Rule further includes an anti-evasion provision, specifying that any other Entry that NACHA reasonably believes represents an attempted evasion of the defined limitations will be treated as an improper reinitiation.

To avoid unintended consequences from these clarifications, the Rule includes two categories of Entries that will not be considered reinitiations. First, the Rule clarifies that a debit Entry in a series of preauthorized recurring debit Entries will not be treated as a reinitiated Entry, even if the subsequent debit Entry follows a returned debit Entry, as long as the subsequent Entry is not contingent upon whether an earlier debit Entry in the series has been returned. For example, if a consumer arranges for his minimum payment on a credit card balance to be paid monthly from an account based on a preauthorization for recurring debits, and the consumer's debit Entry for the September minimum payment is returned for insufficient funds, the debit Entry for the October minimum payment would not be considered a reinitiation of the debit Entry with respect to the returned September Entry.

Second, the Rule expressly states that a debit Entry will not be considered a "reinitiation" if the Originator obtains a new authorization for the debit Entry after the receipt of the Return. The existing Reinitiation

Rule already makes a reference in this regard to Entries that are returned due to stop payment orders, but the Rule will broaden the scope of the exception since a new authorization should always be considered to create a new Entry. For example, if an Originator has twice attempted to represent an Entry returned as NSF, and the consumer later provides a new authorization because he now has funds in his account, the Originator will be permitted to debit the account. The timing requirement is important, however, since Originators will not be permitted to obtain advance approval to debit an account in a manner that would otherwise violate the Reinitiation Rule.

Consistent with ACH Operations Bulletin #3-2013 “Reinitiation of Returned Debit Entries,”<sup>1</sup> the Rule will require a reinitiated Entry to contain identical content in the following fields: Company Name, Company ID, and Amount. Further, the Rule will permit modification to other fields only to the extent necessary to correct an error or facilitate processing of an Entry. This change will allow reinitiations to correct administrative errors, but would prohibit reinitiation of Entries that may be attempts to evade the limitation on the reinitiation of returned Entries by varying the content of the Entry.

Finally, the Rule addresses two technical issues associated with the Reinitiation Rule. First, the ODFI will be required to include the description “RETRY PYMT” in the Company Entry Description field to identify Entries that are permissible resubmissions of Returned Entries under the Reinitiation Rule. Use of this description in the field notifies the Receiver that the Entry relates to a previously Returned Entry, and will facilitate research and dispute resolution for RDFIs. Second, there is not currently a separate Return code for an RDFI to indicate when an Entry is being returned for a violation of the Reinitiation Rule. The Rule will allow such returns to use Return Code R10 (currently used for Extended Returns) to include a Return for a violation of the Reinitiation Rule, since most violations of the Reinitiation Rule are likely to be identified via a customer complaint after the expiration of the “two-day” return timeframe (i.e., an extended return timeframe would be necessary). In order to use R10 and the extended return timeframe, the RDFI will need to obtain a Written Statement of Unauthorized Debit.

### **C. Third-Party Sender Issues** (effective date January 1, 2015)

Subsection 2.2.3 (ODFI Risk Management) of the *Rules* currently requires ODFIs to establish, implement, periodically review and enforce exposure limits for its Originators and Third-Party Senders. In particular, the ODFI is required to monitor each Originator’s and Third-Party Sender’s origination and return activity across multiple Settlement Dates, enforce restrictions on the types of Entries that may be originated and enforce the exposure limit. Moreover, if an ODFI enters into a relationship with a Third-Party Sender that processes Entries such that the ODFI itself cannot or does not perform these monitoring and enforcement tasks with respect to the Originators serviced by the Third-Party Sender, the Third-Party Sender must do so.

Without a specific cross-reference to Subsection 2.2.3, some Third-Party Senders may not be monitoring, assessing and enforcing limitations on their customer’s origination and return activities in the manner intended by the *Rules*. To emphasize the importance of this function, without imposing any new duties, the Rule includes a direct obligation on Third-Party Senders to monitor, assess and enforce limitations on their customer’s origination and return activities in the same manner the *Rules* require of ODFIs.

In addition, the Rule updates certain reporting requirements in the *Rules* in order to streamline oversight of Third-Party Service Providers and Third-Party Senders, when necessary. Subsection 1.2.2 and Appendix Eight of the *Rules* require each Third-Party Service Provider and Third-Party Sender that has agreed with a Participating DFI to process Entries to annually conduct, or have conducted, an audit of its compliance with the *Rules*. Part 8.1 of Appendix Eight requires the Third-Party Service Provider or Third-Party Sender to provide documentation supporting completion of the audit to the National Association upon request. Because any such request would be made via a Participating DFI, the Rule requires the

<sup>1</sup> See <https://www.nacha.org/OpsBulletins>.

Third-Party Service Provider or Third-Party Sender to provide proof of completion of its *Rules* compliance audit to the Participating DFI in order to fulfill a request from NACHA.

#### **D. NACHA's Enforcement Authority** (*effective date January 1, 2015*)

Under Subpart 10.2.2 of Appendix Ten of the *Rules*, NACHA has the authority to initiate a *Rules* enforcement proceeding under the following three circumstances: 1) if an ODFI fails to timely provide upon NACHA's request complete and accurate information regarding return rate reporting; 2) the ODFI substantiates that an Originator or Third-Party Sender has exceeded the unauthorized return rate threshold and fails to reduce the unauthorized return rate under the threshold within 30 days; or 3) the ODFI substantiates that an Originator or Third-Party Sender has exceeded the unauthorized return rate threshold, reduces the return rate under the threshold within 30 days but fails to maintain the return rate under the threshold for 180 days. All other enforcement proceedings must be triggered by a specific request of a Participating DFI.

Thus, even when NACHA has reason to believe that an ODFI supports multiple Originators that are engaged in improper authorization practices (e.g. from multiple reports from RDFIs and RPAs), NACHA must wait for specific claims to be asserted by Participating DFIs before taking action. In order to provide NACHA the tools to act promptly, the Rule includes the express authority for NACHA to bring an enforcement action based on the origination of unauthorized entries. To ensure the judicious use of the expanded authority, the Rule requires the ACH Rules Enforcement Panel to validate the materiality of this type of enforcement case before NACHA can initiate any such proceeding.

In addition, because NACHA remains reliant on Participating DFIs and Operators to identify potential *Rules* violations in the first instance, the Rule encourages RDFIs to voluntarily provide to NACHA information, such as return data, that may be indicative of a potential *Rules* violation by other ACH Network participants, including improper authorization practices, even if the RDFI is not interested in itself initiating a *Rules* enforcement proceeding. While this would not give NACHA the authority to initiate an enforcement action outside of the limited circumstances identified above, early sharing of information regarding unusual return rates or unauthorized transactions can help head off improper activities more quickly. The Rule makes express reference to NACHA's ability to use such information during enforcement proceedings in order to remind Participating DFIs of the importance of their cooperation, both formal and informal, in the process.

## **IMPACT TO PARTICIPANTS**

### **A. Return Rate Levels**

*All Participants:* NACHA expects all ACH Network participants to benefit from the reduction of the return rate threshold for unauthorized debit entries, and the addition of return rate levels for account data quality issues and overall returns. These reduced and new return levels are expected to encourage ODFIs to focus on reducing the number of returns and thereby reducing the number of transactions entering the ACH Network that result in exceptions and returns. Finally, all ACH Network participants should benefit from the ability of NACHA and the ACH Operators to collectively monitor returns at the Network level.

*ODFIs:* ODFIs should already have monitoring in place regarding their Originators' and Third-Party Senders' return rate levels. Some ODFIs may incur costs to develop and implement policies and procedures related to the new return rate levels. Some ODFIs may need to modify their Originators' or Third-Party Senders' origination activity to comply with these levels. Finally, some ODFIs may incur costs associated with replying to information requests from NACHA.

*Originators and Third Party Senders:* Originators and Third-Party Senders with return rates above

the new levels may be required by their ODFIs, and, in the case of some Originators, their Third-Party Senders, to take action to reduce their return rates, and will incur costs in doing so.

*RDFIs:* RDFIs will benefit from a reduction in the number of transactions that cause exceptions and returns, with an attendant reduction in the cost of processing such returns, the cost of Regulation E dispute resolution compliance, and the cost of responding to customer complaints (call centers, branches, and online customer service).

## **B. Reinitiation of Entries**

*All Participants:* NACHA expects all ACH Network participants to benefit from the reduction of the return rates associated with reinitiated Entries. These changes are expected to provide clarity to ODFIs with respect to the existing limitations and qualifications on reinitiations, thereby reducing the number of returned reinitiated Entries.

*ODFIs:* Although the Rule is consistent with NACHA's interpretation of the existing rules on reinitiation, some ODFIs, particularly those with practices that do not comply with the limitation on and requirements for reinitiating returned Entries, are likely to incur additional costs associated with the development and implementation of better policies and procedures to ensure compliance with the Rules. ODFIs will incur some cost in modifying systems to include the "RETRY PYMT" description in Reinitiated Entries.

*Originators and Third Party Senders:* Originators and Third-Party Senders whose practices do not comply with the limitations on and requirements for reinitiating returned Entries are likely to incur additional costs associated with the development and implementation of better policies and procedures to ensure compliance with the Rules. Originators will incur some cost in modifying systems to include the "RETRY PYMT" description in Reinitiated Entries.

*RDFIs:* RDFIs will benefit from a reduction in the number of improperly reinitiated Entries and from clarification of the means by which such Entries may be returned. RDFIs' consumer Receivers will be provided with the Entry description that the Entry is a "Retry" at collecting the payment. RDFIs will benefit from a reduction in the cost of processing such returns, the cost of Regulation E dispute resolution compliance, and the cost of responding to customer complaints (call centers, branches, and online customer service). RDFIs' stop payment systems should be aided by information within reinitiation Entries that is required to be identical to the information in the original Entry.

## **C. Third-Party Sender Topics**

*All Participants:* NACHA expects all ACH Network participants to benefit from improved oversight of Third-Party Senders and Originators, which is expected to result in higher quality origination.

*ODFIs:* NACHA does not expect that ODFIs that practice prudent oversight of their Originators and Third-Party Service Providers will incur additional costs to comply with this element of the Rules, which is intended to make explicit obligations that are inherent in the current Rules. Some ODFIs may incur additional costs associated with developing policies and practices whereby they can obtain and provide to NACHA documentation of Originator and Third-Party Service Provider audits upon request by NACHA.

*Third-Party Senders:* NACHA does not expect that Third-Party Senders that practice prudent oversight of their Originators and proper audit practices will incur additional costs to comply with this element of the Rule, which is intended to make explicit obligations that are inherent in the current Rules. Third-Party Senders with weaker oversight over Originators and/or that do not comply with the current audit requirements in the Rules may incur additional costs associated with developing policies and practices whereby they can monitor, assess and enforce limitations on their customers' origination and return activities and/or to conduct, and provide proof of, annual audits in compliance with the Rules.

## **D. NACHA's Enforcement Authority**

*All Participants:* NACHA expects all ACH Network participants to generally benefit from any reduction in the number of unauthorized transaction in the ACH Network, as well as the positive reputational impact that could follow. This element of the Rule is not expected to have a material cost impact on ACH Network participants.

## **TECHNICAL SUMMARY**

Below is a summary of the impact of this rule change 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.

### **A. Return Rate Levels**

- *Article Two, Subsection 2.17.2.1 (ODFI Return Rate Reporting Regarding an Originator's or Third-Party Sender's Unauthorized Entry Return Rate)* – creates new subsection heading and modifies text that is specific to the Unauthorized Entry Return Rate
- *Article Two, Subsection 2.17.2.2 (Additional ODFI Action and Reporting When the Unauthorized Entry Return Rate Threshold is Exceeded)* – creates new subsection heading and modifies text that is specific to the Unauthorized Entry Return Rate
- *Article Two, Subsection 2.17.2.3 (ODFI Reduction of Unauthorized Entry Return Rate)* – creates new subsection heading and modifies text that is specific to the Unauthorized Entry Return Rate
- *Article Two, Subsection 2.17.2.4 (ODFI Return Rate Reporting Regarding an Originator's or Third-Party Sender's Administrative Return Rate or Overall Return Rate)* – establishes new subsection on ODFI response to a NACHA written request for information
- *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 ACH Rules Enforcement Panel)* – establishes new subsection on ODFI response to a written directive to lower a return rate
- *Article Two, Subsection 2.17.2.6 (ODFI Reduction of Administrative or Overall Return Rate)* – establishes new subsection with timeframes within which an ODFI must lower return rates
- *Article Eight, Section 8.4* – creates a new definition for “Administrative Return Rate”
- *Article Eight, Section 8.5* – creates a new definition for “Administrative Return Rate Level”
- *Article Eight, Section 8.67* – creates a new definition for “Overall Return Rate”
- *Article Eight, Section 8.68* – creates a new definition for “Overall Return Rate Level”
- *Article Eight, Section 8.89* – creates a new definition for “Return Rate Level”
- *Article Eight, Section 8.102* – creates a new definition for “Unauthorized Entry Return Rate”
- *Article Eight, Section 8.103* – creates a new definition for “Unauthorized Entry Return Rate Threshold”
- *Appendix Ten, Part 10.1 (Scope)* – modifies text so that it refers generally to return rates, and not one specific return rate



- *Appendix Ten, Subpart 10.2.1 (National Association Request for Information)* – broadens text to include reference to Return Rate Levels and National Association use of information from RDFIs
- *Appendix Ten, Subpart 10.2.2.1 (National Association May Initiate an Inquiry Regarding an Administrative Return Rate or an Overall Return Rate)* – creates new subpart to discuss inquiry procedure
- *Appendix Ten, Subpart 10.2.2.2 (National Association May Initiate a Rules Enforcement Proceeding)* – modifies text to discuss criteria for a Rules Enforcement Proceeding
- *Appendix Ten, Subpart 10.4.1 (Initiation of a Rules Enforcement Proceeding)* – broadens language to address all return rates
- *Appendix Ten, Subpart 10.4.3 (Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association)* – modifies text to include submission requirements under new procedure
- *Appendix Ten, Subpart 10.4.4.2 (Notice of Possible Fine)* – modifies text to cover new return rate levels
- *Appendix Ten, Subpart 10.4.6.2 (Responsibilities of Enforcement Panel)* – modifies text to include new responsibilities related to the new inquiry process
- *Appendix Ten, Subpart 10.4.7.4 (Class 2 Rules Violation)* – modifies text to address new Return Rate Levels

**Implementation Date: September 18, 2015**

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*As approved August 22, 2014, effective September 18, 2015, the Rules are modified as follows for the rule changes specific to ACH Network Risk and Enforcement – Return Rate Levels.*

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ARTICLE TWO

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

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**SUBSECTION 2.17.2 ODFI Return Rate Reporting**

► **SUBSECTION 2.17.2.1 ODFI Return Rate Reporting Regarding an Originator’s or Third-Party Sender’s Unauthorized Entry Return Rate (new subsection heading)**

Upon receipt of a written request by the National Association to the ODFI’s Chief Operating Officer, an ODFI must provide, via traceable delivery method, to the National Association within ten Banking Days the following information for each Originator or Third-Party Sender:

- *Upon receipt of a written request by the National Association to the ODFI’s Chief Operating Officer regarding an Originator’s or Third-Party Sender’s Unauthorized Entry Return Rate, an ODFI must provide, via traceable delivery method, to the National Association within ten Banking Days the following information for each Originator or Third-Party Sender:*

- (a) the complete legal name; any doing-business-as name(s); and taxpayer identification number(s) of the Originator or Third-Party Sender;
- (b) a statement as to whether the Originator or Third-Party Sender acts as the ODFI's Sending Point with direct access to the ACH Operator;
- (c) the Originator's or Third-Party Sender's origination volume for the time period specified by the National Association;
- (d) the actual return rate for unauthorized Entries, in total and by SEC Code, for the Originator or Third-Party Sender when computed by either:
  - ▶ *(d) the actual Unauthorized Entry Return Rate, in total and by SEC Code, for the Originator or Third-Party Sender when computed by either:*
    - (i) dividing the number of debit Entries returned as unauthorized for the preceding sixty days or two calendar months by the total number of debit Entries contained within the File(s) in which the original Entries were transmitted; or
    - (ii) dividing the number of debit Entries returned as unauthorized for the preceding sixty days or two calendar months by the total number of debit Entries originated for the preceding sixty days or two calendar months, respectively; and
  - (e) a statement either:
    - (i) refuting NACHA's claim that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent; or
    - (ii) explaining the reason(s) causing the Originator's or Third-Party Sender's return rate for unauthorized Entries to have exceeded one percent.
- ▶ *(i) refuting NACHA's claim that the Originator's or Third-Party Sender's Unauthorized Entry Return Rate exceeded the Unauthorized Entry Return Rate Threshold; or*
- (ii) explaining the reason(s) causing the Originator's or Third-Party Sender's Unauthorized Entry Return Rate to have exceeded the Unauthorized Entry Return Rate Threshold.*

*SUBSECTION 2.17.2.2 Additional ODFI Action and Reporting When the Return Threshold is Exceeded*

▶ *Additional ODFI Action and Reporting When the Unauthorized Entry Return Rate Threshold is Exceeded*

When the Originator's or Third-Party Sender's return rate for unauthorized Entries, as calculated in Subsection 2.17.2 (ODFI Return Rate Reporting), exceeds one percent, the ODFI must also provide the National Association with the following information within the ten Banking Day time frame:

▶ *When the Originator's or Third-Party Sender's Unauthorized Entry Return Rate exceeds the Unauthorized Entry Return Rate Threshold, the ODFI must also provide the National Association with the following information within the ten Banking Day time frame:*

- (a) a detailed plan and timeline for reducing the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below one percent for unauthorized Entries within thirty days after receipt of the National Association's written request for information, as described within Subsection 2.17.2;

- ▶ (a) *a detailed plan and timeline for reducing the Originator's or Third-Party Sender's Unauthorized Entry Return Rate to a rate below the Unauthorized Entry Return Rate Threshold within thirty days after receipt of the National Association's written request for information, as described within Subsection 2.17.2.1 (ODFI Return Rate Reporting Regarding an Originator's or Third-Party Sender's Unauthorized Entry Return Rate);*
- (b) the address, telephone number, contact person of the Originator or Third-Party Sender, and, when such Originator or Third-Party Sender is a privately-held company, the following additional information: principal owner(s) and officers of the Originator or Third-Party Sender;
- (c) a description of the nature of the business of the Originator or Third-Party Sender, and the methods used by the Originator(s) to obtain proper authorization for ACH transactions;
- (d) the length of the ACH relationship between the ODFI and the Originator or Third-Party Sender;
- (e) the date of the ODFI's most recent review of the exposure limit for the Originator or Third-Party Sender pursuant to Subsection 2.2.3 (ODFI Risk Management); and
- (f) date and proof of completion of the ODFI's most recent ACH audit in accordance with the requirements of these Rules and Appendix Eight (Rule Compliance Audit Requirements).

▶ **SUBSECTION 2.17.2.3 ODFI Reduction of Return Rate** *ODFI Reduction of Unauthorized Entry Return Rate (new subsection heading)*

The ODFI must reduce the Originator's or Third-Party Sender's return rate for unauthorized Entries to a rate below one percent within thirty days after receipt of the National Association's written request for information and maintain that return rate below one percent for an additional one hundred eighty days.

- ▶ *When the Originator's or Third-Party Sender's Unauthorized Entry Return Rate exceeds the Unauthorized Entry Return Rate Threshold, the ODFI must reduce that return rate below the Unauthorized Entry Return Rate Threshold within thirty days after receipt of the National Association's written request for information, and maintain that return rate below the Unauthorized Entry Return Rate Threshold for an additional one hundred eighty days.*

▶ **SUBSECTION 2.17.2.4 ODFI Return Rate Reporting Regarding an Originator's or Third-Party Sender's Administrative Return Rate or Overall Return Rate** *(new subsection)*

*Upon receipt of a written request by the National Association to the ODFI's Chief Operating Officer regarding an Originator's or Third-Party Sender's Administrative Return Rate or its Overall Return Rate, the ODFI must provide, via traceable delivery method, to the National Association within ten Banking Days, the following information for that Originator or Third-Party Sender:*

- (a) *the complete legal name; any doing-business-as name(s); and taxpayer identification number(s) of the Originator or Third-Party Sender;*
- (b) *a statement as to whether the Originator or Third-Party Sender acts as the ODFI's Sending Point with direct access to the ACH Operator;*
- (c) *the Originator's or Third-Party Sender's origination volume for the time period specified by the National Association;*
- (d) *the actual Administrative Return Rate or Overall Return Rate, as applicable, in total and by SEC Code, for the Originator or Third-Party Sender when computed by either:*

- (i) *dividing the number of debit Entries returned either for administrative reasons (Return Reason Codes R02, R03 and R04 when calculating the Administrative Return Rate) or for any reason (when calculating the Overall Return Rate), as applicable, for the preceding sixty days or two calendar months, by the total number of debit Entries contained within the File(s) in which the original Entries were Transmitted (when calculating the Overall Return Rate, RCK Entries and Returns may be excluded from both the numerator and denominator); or*
  - (ii) *dividing the number of debit Entries returned either for administrative reasons (Return Reason Codes R02, R03 and R04 when calculating the Administrative Return Rate) or for any reason (when calculating the Overall Return Rate), as applicable, for the preceding sixty days or two calendar months, by the total number of debit Entries originated for the preceding sixty days or two calendar months, respectively (when calculating the Overall Return Rate, RCK Entries and Returns may be excluded from both the numerator and denominator); and*
- (e) *a statement either:*
- (i) *refuting NACHA's claim that the Originator's or Third-Party Sender's Administrative Return Rate or Overall Return Rate exceeded the applicable Return Rate Level; or*
  - (ii) *explaining the reason(s) causing the Originator's or Third-Party Sender's Administrative Return Rate or Overall Return Rate to have exceeded the applicable Return Rate Level.*

*If an Originator or a Third-Party Sender exceeds either the Administrative Return Rate Level or the Overall Return Rate Level, the National Association may initiate an inquiry to review the origination and business practices of the Originator or Third-Party Sender. The ODFI may submit supplemental information that is relevant to the factors specified in Appendix Ten, Subpart 10.2.2.1 (National Association May Initiate an Inquiry Regarding an Administrative Return Rate or an Overall Return Rate), and any other information the ODFI believes that the National Association should consider.*

► **SUBSECTION 2.17.2.5 Additional ODFI Action and Reduction of Administrative Return Rate and/or the Overall Return Rate When Directed by ACH Rules Enforcement Panel (new subsection)**

*Upon the receipt of 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 return rate(s) below the Administrative Return Rate Level and/or the Overall Return Rate Level, as applicable, the ODFI must provide within ten Banking Days the following information:*

- (a) *a detailed plan and timeline for reducing the Originator's or Third-Party Sender's Administrative Return Rate and/or Overall Return Rate to a rate below the Administrative Return Rate Level and/or the Overall Return Rate Level, as applicable, within thirty days after receipt of the National Association's written directive;*
- (b) *the address, telephone number, contact person of the Originator or Third-Party Sender, and, when such Originator or Third-Party Sender is a privately-held company, the following additional information: principal owner(s) and officers of the Originator or Third-Party Sender;*
- (c) *the length of the ACH relationship between the ODFI and the Originator or Third-Party Sender;*
- (d) *the date of the ODFI's most recent review of the exposure limit for the Originator or Third-Party Sender in accordance with Subsection 2.2.3 (ODFI Risk Management); and*
- (e) *the date and proof of completion of the ODFI's most recent ACH audit in accordance with the requirements of these Rules and Appendix Eight (Rule Compliance Audit Requirements).*

► **SUBSECTION 2.17.2.6 ODFI Reduction of Administrative Return Rate or Overall Return Rate (new subsection)**

*Upon the receipt of a written directive from the National Association, on behalf of the ACH Rules Enforcement Panel, the ODFI must reduce the Originator's or Third-Party Sender's Administrative Return Rate and/or Overall Return Rate, as applicable, below the applicable Return Rate Level(s) within thirty days after receipt of the written directive, and maintain that return rate(s) below the applicable Return Rate Level for an additional one hundred eighty days.*

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ARTICLE EIGHT

Definitions of Terms Used in These Rules

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► **SECTION 8.4 "Administrative Return Rate" (new section)**

*the rate at which an Originator's or Third Party Sender's debit Entries are returned for administrative reasons (Return Reason Codes R02, R03 or R04), as calculated in accordance with Subsection 2.17.2.4(d).*

► **SECTION 8.5 "Administrative Return Rate Level" (new section)**

*an Administrative Return Rate of three percent (3%).*

► **SECTION 8.67 "Overall Return Rate" (new section)**

*the rate at which an Originator's or Third Party Sender's debit Entries, excluding RCK Entries, are returned, regardless of reason, as calculated in accordance with Subsection 2.17.2.4(d).*

► **SECTION 8.68 "Overall Return Rate Level" (new section)**

*an Overall Return Rate of fifteen percent (15%).*

► **SECTION 8.89 "Return Rate Level" (new section)**

*refers to the Administrative Return Rate Level and/or Overall Return Rate Level, as applicable.*

► **SECTION 8.102 "Unauthorized Entry Return Rate" (new section)**

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

► **SECTION 8.103 "Unauthorized Entry Return Rate Threshold" (new section)**

*an Unauthorized Entry Return Rate of one half of one percent (0.5%).*

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APPENDIX TEN

Rules Enforcement

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**PART 10.1 Scope**

Appendix Ten 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 a return rate for unauthorized Entries by an Originator or Third-Party Sender that exceeds a defined threshold, or (3) the failure of a Participating DFI to comply with a direct obligation to the National Association, as defined by these *Rules*.

► *Appendix Ten 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 Ten 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 Ten (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 10.2 ODFI Reporting Requirements**

### **SUBPART 10.2.1 National Association Request for Information**

If, in its sole discretion, the National Association believes that the rate that debit Entries are returned as unauthorized exceeds one percent for one or more Originators or Third-Party Senders using the ODFI to originate Entries, the National Association may send, via traceable delivery method, a written request to the ODFI's Chief Operating Officer for information described in Article Two, Subsection 2.17.2 (ODFI Return Rate Reporting). A copy of this request will also be sent to the ODFI's ACH Manager.

► *If, in its sole discretion, the National Association believes that an Originator's or Third-Party Sender's return rate, as calculated using either of the methods of Subsection 2.17.2.1(d) (ODFI Return Rate Reporting Regarding an Originator's or Third-Party Sender's Unauthorized Entry Return Rate), or Subsection 2.17.2.4(d) (ODFI Return Rate Reporting Regarding an Originator's or Third-Party Sender's Administrative Return Rate or Overall Return Rate) exceeds either the Unauthorized Entry Return Rate Threshold or a Return Rate Level, the National Association may send, via traceable delivery method, a written request to the ODFI's Chief Operating Officer for information described in Article Two, Subsection 2.17.2 (ODFI Return Rate Reporting). A copy of this request will also be sent to the ODFI's ACH Manager. The National Association may use and rely, without limitation, on return data provided by an RDFI for the purpose of the written request to the ODFI.*

### **SUBPART 10.2.2 National Association Action on Receipt of Information Reported by ODFI**

► **SUBPART 10.2.2.1 National Association May Initiate an Inquiry Regarding an Administrative Return Rate or an Overall Return Rate (new subsection)**

*The National Association may initiate an inquiry when an ODFI substantiates that an Originator's or Third-Party Sender's return rate exceeds either the Administrative Return Rate Level or the Overall Return Rate Level, including a review of the origination and business practices of the Originator or Third-Party Sender. As a result of the review, the National Association may recommend to the ACH Rules Enforcement*

*Panel that the ODFI be required to reduce Originator's or Third-Party Sender's applicable return rate(s) below the applicable Return Rate Level(s).*

*The National Association may use the following factors, as well as any other information it deems relevant, in determining whether to make such a recommendation to the ACH Rules Enforcement Panel:*

- (a) the length of time the Originator or Third-Party Sender has been in business, and the length of time it has originated Entries through the ODFI;*
- (b) the Originator's or Third-Party Sender's total volume of forward and returned debit Entries;*
- (c) the amount by which the Originator's or Third-Party Sender's return rate exceeds the applicable Return Rate Level;*
- (d) the Originator's or Third-Party Sender's Unauthorized Entry Return Rate;*
- (e) the return rates for the Originator's affiliates, if applicable, and any evidence that returns are allocated among affiliates;*
- (f) any evidence of the Originator's or Third-Party Sender's compliance or non-compliance with the Rules on Reinitiation (Subsection 2.12.4 Reinitiation of Returned Entries);*
- (g) the number of Rules violations or RDFI complaints involving the Originator, Third-Party Sender, or Third-Party Sender's Originators;*
- (h) the existence of investigations or legal or regulatory actions by any governmental agency or authority involving the Originator or Third-Party Sender, its principals, entities with which its principals are or have previously been associated, or its current affiliates;*
- (i) the number and materiality of consumer complaints alleging fraud or deception related to (i) the products or services offered by the Originator or Third-Party Sender's Originators or (ii) the ACH origination practices of such entities;*
- (j) if a Third-Party Sender, whether it has provided a valid proof of completion of a Rules compliance audit; and*
- (k) any other relevant information submitted by the ODFI.*

*If the National Association makes a recommendation that the ACH Rules Enforcement Panel direct an ODFI to reduce the Administrative Return Rate or Overall Return Rate of an Originator or Third Party Sender, the ACH Rules Enforcement Panel will consider the factors identified in this Subpart 10.2.2.1 and any other information that it deems relevant to its determination. If the ACH Rules Enforcement Panel instructs the National Association to communicate such a directive to the ODFI, the National Association will proceed in accordance with 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) of the Rules.*

► **SUBPART 10.2.2.2 National Association May Initiate a Rules Enforcement Proceeding (new subsection heading)**

The National Association may initiate a rules enforcement proceeding according to Part 10.4 (National System of Fines) of this Appendix Ten for a Class 2 Rules Violation, as defined within Subpart 10.4.7.4 (Class 2 Rules Violation), if the ODFI

- (1) fails to provide the National Association with complete and accurate information, as required by Article Two, Section *Subsection* 2.17.2 (ODFI Return Rate Reporting), within ten Banking Days of receipt of NACHA's written request for information;
- (2) substantiates the claim that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent, and the ODFI fails to reduce that return rate to a rate below the return threshold for unauthorized Entries within 30 days after receipt of the National Association's written request, according to Article Two, Section 2.17.2 (ODFI Return Rate Reporting); or
- ▶ (2) *fails to reduce the Unauthorized Entry Return Rate of an Originator or Third-Party Sender below the Unauthorized Entry Return Rate Threshold within 30 days after receipt of a written request from the National Association in accordance with Article Two, Subsection 2.17.2.1 (ODFI Return Rate Reporting Regarding an Originator's or Third-Party Sender's Unauthorized Entry Return Rate);*
- (3) substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below one percent for 180 additional days.
- ▶ (3) *successfully reduces the Unauthorized Entry Return Rate of an Originator or Third-Party Sender below the Unauthorized Entry Return Rate Threshold within the 30 day time period, but fails to maintain that return rate below the Unauthorized Entry Return Rate Threshold for 180 additional days;*
- (4) *fails to reduce the Administrative Return Rate or Overall Return Rate(s) of an Originator or Third Party Sender 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 Overall Return Rate When Directed by ACH Rules Enforcement Panel); or*
- (5) *successfully reduces the Administrative Return Rate or Overall Return Rate(s) of an Originator or Third Party Sender below the applicable Return Rate Level within the 30 day time period, but fails to maintain that return rate below the applicable Return Rate Level for 180 additional days.*

## **PART 10.4 National System of Fines**

### **SUBPART 10.4.1 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 10.4.2 (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 in response to (1) a violation of unauthorized Entries according to Part 10.2 (ODFI Reporting Requirements) of this Appendix Ten, or (2) the failure of a Participating DFI to comply with a direct obligation to the National Association, as defined by these rules. A rules enforcement proceeding initiated by the National Association must comply with the requirements of Subpart 10.4.3 (Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association).



► *A rules enforcement proceeding may also be initiated and conducted by the National Association (1) as provided in Subpart 10.2.2.2 (National Association May Initiate a Rules Enforcement Proceeding); or (2) in response to the failure of a Participating DFI to comply with a direct obligation to the National Association, as defined by these rules. A rules enforcement proceeding initiated by the National Association must comply with the requirements of Subpart 10.4.3 (Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association).*

**SUBPART 10.4.3 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 statement outlining the reason(s) for the initiation of a rules enforcement proceeding: (1) the ODFI failed, within the required timeframe, to provide the National Association with complete and accurate information as required by Article Two, Section 2.17.2 (ODFI Return Rate Reporting); (2) the information provided by the ODFI substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 30 days after receipt of the National Association's written request, according to Article Two, 2.17.2 (ODFI Return Rate Reporting); (3) the information provided by the ODFI substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below the return threshold for 180 additional days; or (4) the Participating DFI failed to comply with a direct obligation to the National Association, as defined by these rules;
- for a rules enforcement proceeding initiated in response to a violation of unauthorized Entries according to Part 10.2 (ODFI Reporting Requirements) of this Appendix Ten, a copy of the National Association's written request for information according to Subpart 10.2.1 (National Association Request for Information) of this Appendix Ten.

► *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 timeframe, to provide the National Association with complete and accurate information as required by Article Two, Section 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 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 the ACH Rules Enforcement Panel), but the ODFI failed to maintain the rate below the applicable Return Rate Level for 180 additional days; or*
- (6) *the Participating DFI failed to comply with a direct obligation to the National Association, as defined by these rules;*

*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 10.2 (ODFI Reporting Requirements) of this Appendix Ten, a copy of the National Association's written request for information according to Subpart 10.2.1 (National Association Request for Information) of this Appendix Ten.*

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 10.4.4 Assessment of Rules Enforcement Submission**

##### **SUBPART 10.4.4.2 Notice of Possible Fine**

If the National Association determines that the violation is a Class 1, Class 2, or Class 3 Rules Violation, as defined by Subpart 10.4.7 (Fines and Penalties), a Notice of Possible Fine will be sent to the Participating DFI and the National Association will forward the issue to the ACH Rules Enforcement Panel to consider the imposition of a fine against the Participating DFI in accordance with Subpart 10.4.7 of this Appendix Ten.

In the Notice of Possible Fine, the Participating DFI will be asked to correct the rule violation that is the basis for the Notice of Possible Fine and to respond to the National Association within ten Banking Days after the date on which it received a Notice of Possible Fine. The Notice of Possible Fine 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 that is the basis for the Notice of Possible Fine, along with a statement specifying the Resolution Date, or (2) a statement, along with supporting documentation, that the Participating DFI does not believe that a rules violation occurred.

Where the ODFI fails to provide a complete and accurate response in accordance with the requirements of Section 2.17.2 (ODFI Return Rate Reporting), the ODFI's acknowledgment to the Notice of Possible Fine must include the reporting information required by Section 2.17.2. In situations involving the ODFI's affirmation of a return rate for unauthorized Entries in excess of the return threshold, the ODFI's acknowledgment to the Notice of Possible Fine must include updated information on, and the timetable for, the implementation of the ODFI's plan to reduce its return rate.

► *Where the ODFI fails to provide a complete and accurate response in accordance with the requirements of Subsection 2.17.2 (ODFI Return Rate Reporting), the ODFI's acknowledgment to the Notice of Possible Fine must include the reporting information required by Section 2.17.2. In situations involving the ODFI's affirmation that an Originator's or Third-Party Sender's return rate(s) exceeded either:*

1. *the Unauthorized Entry Return Rate Threshold; or*
2. *the applicable Administrative Return Rate Level and/or Overall Return Rate Level after receiving a written directive from the National Association to lower the return rate,*

*the ODFI's acknowledgment to the Notice of Possible Fine must include updated information on, and the timetable for, the implementation of the ODFI's plan to reduce the return rate(s) below the applicable threshold or level.*

Where the ODFI fails to register or provide data reporting in accordance with the requirements of Article Two, Section 2.17.1 (Direct Access Registration), the ODFI's acknowledgement to the Notice of Possible Fine must include the registration information required by Section 2.17.1.

If the National Association receives the Participating DFI's completed response form and related information within the ten Banking Day time frame, and the National Association determines that the response refutes the claim in the Notice of Possible Fine, the National Association will take no additional action at that time. In all other circumstances described within this Subpart 10.4.4.2, the National Association will forward the issue to the ACH Rules Enforcement Panel for its consideration and possible imposition of a fine in accordance with Subpart 10.4.7 (Fines and Penalties) of this Appendix Ten.

#### **SUBPART 10.4.6 ACH Rules Enforcement Panel**

##### *SUBPART 10.4.6.2 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 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;*
- 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 10.4.7 Fines and Penalties****SUBPART 10.4.7.4 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, Section 2.17.2 (ODFI Return Rate Reporting);
  - (ii) substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 30 days of receipt of the National Association's written request;
    - ▶ *(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) substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below the return 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.
    - ▶ *(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, Section 2.17.1 (Direct Access Registration);

- (5) the Participating DFI fails to provide the National Association with proof of completion of a rules compliance audit, as required by Appendix Eight (Rule Compliance Audit Requirements);
- (6) 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;
- (7) the National Association believes that the violation causes excessive harm to one or more Participating DFIs or the ACH Network; or
- (8) it is the fourth or subsequent recurrence of the same rules violation.

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.

**B. Reinitiation of Entries**

- *Article Two, Subsection 2.12.4.1 (General Rule for Reinitiated Entries)* – creates a new subsection to specifically define a Reinitiated Entry
- *Article Two, Subsection 2.12.4.2 (Formatting Requirements for Reinitiated Entries)* – creates a new subsection to address the specific formatting of the Company Description Field for Reinitiated Entries
- *Article Two, Subsection 2.12.4.3 (Improper Reinitiation Practices)* – creates a new subsection to address improperly reinitiated Entries
- *Article Three, Subsection 3.12.4 (Improperly Reinitiated Debit Entries)* – adds new subsection regarding Reinitiated Entries
- *Article Three, Subsection 3.12.5 (RDFI Must Accept Written Statement of Unauthorized Debit)* – adds a new item (e) for Reinitiated Entries
- *Article Eight, Subsection 8.78 (“Reinitiated Entry” or “Reinitiation” or “Reinitiate”)* – establishes definitions for terms related to Reinitiated Entries
- *Appendix One, Part 1.2 (Data Specifications for ACH Records)* – adds “RETRY PYMT” to the list of field contents for the Company Entry Description that must be all upper case characters
- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)* – adds “RETRY PYMT” to the list of field contents for the Company Entry Description
- *Appendix Four, Part 4.2 (Table of Return Reason Codes)* – modifies Return Reason Code R10 to include Improperly Reinitiated Entries
- *Appendix Ten, Subpart 10.4.6.2 (Responsibilities of Enforcement Panel)* – includes a new ACH Rules Enforcement Panel responsibility related to Reinitiated Entries

**Implementation Date: September 18, 2015**

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*As approved August 22, 2014, effective September 18, 2015, the Rules are modified as follows for the rule changes specific to ACH Network Risk and Enforcement – Reinitiation of Entries.*

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ARTICLE TWO

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

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**SECTION 2.12 Return Entries**

***SUBSECTION 2.12.4 Reinitiation of Returned Entries***

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

- (a) the Entry was returned for insufficient or uncollected funds;

- (b) the Entry was returned for stopped payment and reinitiation has been authorized by the Receiver;  
or
- (c) the Originator or ODFI has taken corrective action to remedy the reason for the return.

The Originator or ODFI must reinitiate the Entry within one hundred eighty days after the Settlement Date of the original Entry. An Originator or ODFI must not reinitiate an Entry that has been returned for insufficient or uncollected funds more than two times following the return of the original Entry.

► **SUBSECTION 2.12.4.1 General Rule for Reinitiated Entries (new subsection heading)**

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

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

*The Originator or ODFI must Reinitiate the Entry within one hundred eighty days after the Settlement Date of the original Entry. An Originator or ODFI must not Reinitiate an Entry that has been returned for insufficient or uncollected funds more than two times following the Return of the original Entry.*

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

- (e) *the debit Entry is one in a series of preauthorized, recurring debit Entries and is not contingent upon whether an earlier debit Entry in the recurring series has been Returned; or,*
- (f) *the Originator obtains a new authorization for the debit Entry after it receives the original Return Entry.*

► **SUBSECTION 2.12.4.2 Formatting Requirements for Reinitiated Entries (new subsection)**

*An Originator or ODFI must submit Reinitiated Entries as a separate batch that contains the word "RETRY PYMT" in the Company Entry Description field of the Company/Batch Header Record.*

*The contents of the Company Name, Company ID, and Amount fields of the Reinitiated Entry must be identical to the contents of the original Entry. The contents of other fields should be modified only as necessary to correct an error or facilitate proper processing of the Reinitiated Entry.*

► **SUBSECTION 2.12.4.3 Improper Reinitiation Practices (new subsection)**

*All of the following will be treated as improper Reinitiation practices that do not meet the requirements of Subsection 2.12.4.1 (General Rule on Reinitiated Entries):*

- (a) *Following the Return of an Entry, initiating an Entry to the same Receiver in an amount greater than the amount of the previously Returned Entry in payment or fulfillment of the same underlying obligation plus an additional fee or charge.*
- (b) *Following the Return of an Entry, initiating one or more Entries to the same Receiver in an amount(s) less than the original Entry in payment or fulfillment of a portion of the same underlying obligation.*

(c) *Reinitiating any Entry that was Returned as unauthorized.*

(d) *Initiating any other Entry that the National Association reasonably believes represents an attempted evasion of the limitations on Reinitiation.*

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ARTICLE THREE

Rights and Responsibilities of RDFIs and Their Receivers

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► **SUBSECTION 3.12.4 Improperly Reinitiated Debit Entries (new subsection)**

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

(a) *Following the Return of an Entry, initiating an Entry to the same Receiver in an amount greater than the amount of the previously Returned Entry in payment or fulfillment of the same underlying obligation plus an additional fee or charge.*

(b) *Following the Return of an Entry, initiating one or more Entries to the same Receiver in an amount(s) less than the original Entry in payment or fulfillment of a portion of the same underlying obligation.*

(c) *Reinitiating any Entry that was Returned as unauthorized.*

(d) *Initiating any other Entry that the National Association reasonably believes represents an attempted evasion of the limitations on Reinitiation.*

**SUBSECTION 3.12.5 RDFI Must Accept Written Statement of Unauthorized Debit**

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

(a) unauthorized or improper debit Entry to a Consumer Account;

(b) unauthorized or improper ARC, BOC, or POP Entry to a non-Consumer Account;

(c) unauthorized IAT Entry; and

► (c) *unauthorized IAT Entry;*

(d) Incomplete Transaction to a Consumer Account or an Incomplete Transaction involving any ARC, BOC, or POP Entry.

► (d) *Incomplete Transaction to a Consumer Account or an Incomplete Transaction involving any ARC, BOC, or POP Entry; and*

(e) *Improperly Reinitiated Debit Entry.*

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



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

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

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

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

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## ARTICLE EIGHT

### Definitions of Terms Used in These Rules

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#### ► **SECTION 8.78 "Reinitiated Entry" or "Reinitiation" or "Reinitiate" (new section)**

*Following the Return of an Entry, an Entry initiated to the same Receiver's account in the same amount in payment or fulfillment of the same underlying obligation.*

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## APPENDIX ONE

### ACH File Exchange Specifications

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#### **PART 1.2 Data Specifications for ACH Records**

The following table shows the data specifications for ACH Records.

TYPE OF FIELD	ALPHABETIC/ ALPHAMERIC	NUMERIC
<b>Valid Characters</b>	0-9, A-Z, a-z, space, EBCDIC values greater than hexadecimal "3F", ASCII values greater than hexadecimal "1F"	0-9
<b>Justification</b>	Left	Right
<b>Empty Field Handling</b>	Space filled	Zero filled
<b>Special Notes</b>	Certain fields require the use of UPPER CASE characters – see below.	Must be unsigned (Neither positive (+) or negative (-) signage.)

UPPER CASE characters must be used for all of the following:

- all alphabetic characters within the Standard Entry Class Code field;
- all alphabetic characters within the File ID Modifier field;
- all alphabetic characters within the Change Code and Refused COR Code fields;
- all alphabetic characters within the Return Reason Code, Dishonored Return Reason Code, and Contested Dishonored Return Reason Code fields;
- Company Entry Description fields containing the words "REVERSAL," "RETURN FEE," "RECLAIM," "NONSETTLED," "AUTOENROLL" (for ENR entries), "REDEPCHECK" (for RCK entries), "NO CHECK" (for XCK entries), and "HCCLAIMPMT" (for Health Care EFT Transactions); and
- ▶ • *Company Entry Description fields containing the words "RETRY PYMT," "REVERSAL," "RETURN FEE," "RECLAIM," "NONSETTLED," "AUTOENROLL" (for ENR entries), "REDEPCHECK" (for RCK entries), "NO CHECK" (for XCK entries), and "HCCLAIMPMT" (for Health Care EFT Transactions); and*
- Company Name fields containing the words "CHECK DESTROYED" (for XCK entries).

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APPENDIX THREE

ACH Record Format Specifications

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**SUBPART 3.2.2 Glossary of Data Elements**

**Company Entry Description:** 10 Positions – Company/Batch Header Record – Mandatory (all batches)

The Originator establishes the value of this field to provide the Receiver with a description of the purpose of the Entry. For example, "Gas bill," "Reg. Salary," "ins. prem.," "Soc. Sec.," "DTC," "Trade Pay," "PURCHASE," etc.

This field must contain the word "NONSETTLED" when the batch contains Entries that could not settle.

This field must contain the word "RECLAIM" when the batch contains Reclamation Entries.

► *This field must contain the words “RETRY PYMT” when the batch contains Reinitiated Entries.*

This field must contain the words “RETURN FEE” when the batch contains Return Fee Entries.

This field must contain the word “REVERSAL” when the batch contains Reversing Entries.

*ADV:* The Originator, i.e., the Originating ACH Operator, uses this field to describe to the institution receiving the ADV File the type of activity to which the accounting information relates.

*CCD:* This field must contain the word “HCCLAIMPMT” when the batch contains Health Care EFT Transactions.

*ENR:* This field must contain the word “AUTOENROLL” when the batch contains Automated Enrollment Entries.

*RCK:* This field must contain the word “REDEPCHECK”.

*TRX:* This field contains the routing number of the keeper.

*WEB:* For a Person-to-Person Entry, this field must contain a description that the Receiver would readily recognize as descriptive of a Person-to-Person Entry.

*XCK:* This field must contain the words “NO CHECK”.

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APPENDIX FOUR

Table of Return Reason Codes

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*[Please see following page.]*

**PART 4.2 Table of Return Reason Codes**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R10	Customer Advises Unauthorized, Improper, Ineligible, or part of an Incomplete Transaction	The RDFI has been notified by the Receiver that the Entry is unauthorized, improper, ineligible, or part of an Incomplete Transaction.	RDFI	Extended Return	Consumer; for ARC, BOC, IAT, or POP, Entries may also be a Non-Consumer. See note for additional exceptions.	** 60 Calendar Days	Yes	Article Three, Subsection 3.12.1 - Unauthorized Debit Entry. Article Three, Subsection 3.12.2 - Improper ARC, BOC, POP, and RCK Debit Entries. Article Three, Subsection 3.12.3 - Incomplete Transaction. <i>Article Three, Subsection 3.12.4, Improperly Reinitiated Entries</i> Article Three, Subsection 3.13 - RDFI May Rely on Standard Entry Class Codes. Article Three, Subsection 3.4.1.2 Rule Exception for CCD and CTX Entries to Consumer Accounts. Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries. Article Eight, Section 8.50 - Incomplete Transaction.	May be used for any Entry except CCD or CTX Entries For CCD or CTX Entries to Consumer Accounts, see R05. For CCD or CTX to Non-Consumer Accounts, see R29. May also be used to return an unauthorized debit Entry to a non-consumer account if the debit Entry contains a consumer SEC Code.

\* 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.

## APPENDIX TEN

Rules Enforcement

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**SUBPART 10.4.6 ACH Rules Enforcement Panel***SUBPART 10.4.6.2 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 attempted to evade the limitations on Reinitiation;*
- 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.

**C. Third-Party Sender Topics**

- *Article Two, Subsection 2.15.3 (Performance and Warranty of ODFI Obligations by Third-Party Senders)* – adds specific language requiring risk monitoring by Third-Party Senders
- *Article Two, Subsection 2.17.2.1 (Additional ODFI Action and Reporting When the Return Threshold is Exceeded)* – adds a new item requiring the ODFI to provide proof of its Third-Party Sender’s audit completion
- *Appendix Eight, Part 8.1 (General Audit Requirements)* – adds language requiring the Participating DFI to provide proof of its Third-Party Service Provider’s or Third-Party Sender’s audit completion, and requiring the Third-Party Service Provider or Third-Party Sender to provide this proof to the Participating DFI
- *Appendix Ten, Subpart 10.4.7.4 (Class 2 Rules Violation)* – modifies Class 2 Rules Violation list to add failure to provide the Third-Party Sender’s proof of audit completion

**Implementation Date: January 1, 2015**

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*As approved August 22, 2014, effective January 1, 2015, the Rules are modified as follows for the rule changes specific to ACH Network Risk and Enforcement – Third-Party Sender Issues.*

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ARTICLE TWO

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

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**SECTION 2.15 Obligations of Third-Party Senders, and of ODFIs and Originators That Use Third-Party Senders**

***SUBSECTION 2.15.3 Performance and Warranty of ODFI Obligations by Third-Party Senders***

To the extent that a Third-Party Sender performs any of the obligations of an ODFI under these Rules, the Third-Party Sender must perform the requirements of these Rules otherwise applicable to the ODFI, and warrants that it is legally able to do so. The performance by a Third-Party Sender of any of the obligations of the ODFI under these Rules shall not relieve the ODFI of any of its obligations under these Rules.

► *To the extent that a Third-Party Sender performs any of the obligations of an ODFI under these Rules, the Third-Party Sender must perform the requirements of these Rules otherwise applicable to the ODFI, including, but not limited to, monitoring the origination and return activity of its Originators across multiple Settlement Dates, enforcing restrictions on the types of Entries that may be originated through its Originators, and enforcing, with respect to its Originators, the exposure limit set by the Third-Party Sender or ODFI as set forth in Subsection 2.2.3 (ODFI Risk Management), and warrants that it is legally able to do so. The performance by a Third-Party Sender of any of the obligations of the ODFI under these Rules shall not relieve the ODFI of any of its obligations under these Rules.*

**SUBSECTION 2.17.2 ODFI Return Rate Reporting****SUBSECTION 2.17.2.1 Additional ODFI Action and Reporting When the Return Threshold is Exceeded**

When the Originator's or Third-Party Sender's return rate for unauthorized Entries, as calculated in Subsection 2.17.2 (ODFI Return Rate Reporting), exceeds one percent, the ODFI must also provide the National Association with the following information within the ten Banking Day time frame:

- (a) a detailed plan and timeline for reducing the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below one percent for unauthorized Entries within thirty days after receipt of the National Association's written request for information, as described within Subsection 2.17.2;
- (b) the address, telephone number, contact person of the Originator or Third-Party Sender, and, when such Originator or Third-Party Sender is a privately-held company, the following additional information: principal owner(s) and officers of the Originator or Third-Party Sender;
- (c) a description of the nature of the business of the Originator or Third-Party Sender, and the methods used by the Originator(s) to obtain proper authorization for ACH transactions;
- (d) the length of the ACH relationship between the ODFI and the Originator or Third-Party Sender;
- (e) the date of the ODFI's most recent review of the exposure limit for the Originator or Third-Party Sender pursuant to Subsection 2.2.3 (ODFI Risk Management); and
- ▶ *(e) the date of the ODFI's most recent review of the exposure limit for the Originator or Third-Party Sender pursuant to Subsection 2.2.2 (ODFI Risk Management);*
- (f) date and proof of completion of the ODFI's most recent ACH audit in accordance with the requirements of these Rules and Appendix Eight (Rule Compliance Audit Requirements).
- ▶ *(f) date and proof of completion of the ODFI's most recent ACH audit in accordance with the requirements of these Rules and Appendix Eight (Rule Compliance Audit Requirements); and*
- (g) if applicable, proof of completion of the Third-Party Sender's most recent ACH audit in accordance with the requirements of these Rules and Appendix Eight (Rule Compliance Audit Requirements).*

## APPENDIX EIGHT

## Rule Compliance Audit Requirements

**PART 8.1 General Audit Requirements**

Each Participating DFI, Third-Party Service Provider, and Third-Party Sender must, in accordance with standard auditing procedures, conduct an internal or external audit of compliance with provisions of the ACH rules in accordance with the requirements of this Appendix Eight. These audit provisions do not prescribe a specific methodology to be used for the completion of an audit but identify key rule provisions that should be examined during the audit process.

An annual audit must be conducted under these Rule Compliance Audit Requirements no later than December 31 of each year.

This audit must be performed under the direction of the audit committee, audit manager, senior level officer, or independent (external) examiner or auditor of the Participating DFI, Third-Party Service Provider, or Third-Party Sender.

The Participating DFI, Third-Party Service Provider or Third-Party Sender must retain proof that it has completed an audit of compliance in accordance with these Rules. Documentation supporting the completion of an audit must be (1) retained for a period of six years from the date of the audit, and (2) provided to the National Association upon request.

Failure of a Participating DFI to provide proof of completion of an audit according to procedures determined by the National Association may be considered a Class 2 rule violation pursuant to Appendix Ten, subpart 10.4.7.4 (Class 2 Rules Violation).

► *Upon the National Association's request, a Participating DFI must provide to the National Association proof that its Third-Party Service Provider(s) and/or Third-Party Sender(s) have completed an audit of compliance in accordance with these Rules. A Third-Party Service Provider or a Third-Party Sender must provide such proof to the Participating DFI for purposes of the Participating DFI's compliance with such a request from the National Association within 10 Banking Days of the ODFI's request. Failure of a Participating DFI to provide proof of completion of its own audit, its Third-Party Service Provider's audit, or its Third-Party Sender's audit according to procedures determined by the National Association may be considered a Class 2 rule violation pursuant to Appendix Ten, subpart 10.4.7.4 (Class 2 Rules Violation).*

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## APPENDIX TEN

### Rules Enforcement

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#### **SUBPART 10.4.7 Fines and Penalties**

##### *SUBPART 10.4.7.4 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, Section 2.17.2 (ODFI Return Rate Reporting); (ii) substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 30 days of receipt of the National Association's written request; or (iii) substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below the return 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.



- (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, Section 2.17.1 (Direct Access Registration);
- (5) the Participating DFI fails to provide the National Association with proof of completion of a rules compliance audit, as required by Appendix Eight (Rule Compliance Audit Requirements);
- ▶ (5) *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 Eight (Rule Compliance Audit Requirements);*
- (6) 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;
- (7) the National Association believes that the violation causes excessive harm to one or more Participating DFIs or the ACH Network; or
- (8) it is the fourth or subsequent recurrence of the same rules violation.

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.

**D. NACHA's Enforcement Authority**

- *Appendix Ten, Subpart 10.4.1 (Initiation of a Rules Enforcement Proceeding)* – allows NACHA to initiate an enforcement proceeding based on a reasonable belief that an authorization violation has occurred, and to use information received from DFIs as part of the proceeding
- *Article Ten, Subpart 10.4.3 (Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association)* – adds NACHA's reasonable belief that an authorization violation has occurred to the statement submission requirements
- *Appendix Ten, Subpart 10.4.6.2 (Responsibilities of Enforcement Panel)* – includes a new ACH Rules Enforcement Panel responsibility related to NACHA-initiated enforcement actions

**Implementation Date: January 1, 2015**

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*As approved August 22, 2014, effective January 1, 2015, the Rules are modified as follows for the rule changes specific to ACH Network Risk and Enforcement – NACHA's Enforcement Authority.*

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 APPENDIX TEN

 Rules Enforcement
 

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**PART 10.4 National System of Fines****SUBPART 10.4.1 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 10.4.2 (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 in response to (1) a violation of unauthorized Entries according to Part 10.2 (ODFI Reporting Requirements) of this Appendix Ten, or (2) the failure of a Participating DFI to comply with a direct obligation to the National Association, as defined by these rules. A rules enforcement proceeding initiated by the National Association must comply with the requirements of Subpart 10.4.3 (Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association).

- *A rules enforcement proceeding may also be initiated and conducted by the National Association in response to (1) a violation of unauthorized Entries, according to Part 10.2 (ODFI Reporting Requirements) of this Appendix Ten; (2) 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) 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 initiated by the National Association must comply with the requirements of Subpart 10.4.3 (Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association).

**SUBPART 10.4.3 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 statement outlining the reason(s) for the initiation of a rules enforcement proceeding: (1) the ODFI failed, within the required timeframe, to provide the National Association with complete and accurate information as required by Article Two, Section 2.17.2 (ODFI Return Rate Reporting); (2) the information provided by the ODFI substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 30 days after receipt of the National Association's written request, according to Article Two, 2.17.2 (ODFI Return Rate Reporting); (3) the information provided by the ODFI substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below the return threshold for 180 additional days; or (4) the Participating DFI failed to comply with a direct obligation to the National Association, as defined by these rules;
- ▶ • *a statement outlining the reason(s) for the initiation of a rules enforcement proceeding: (1) the ODFI failed, within the required timeframe, 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 the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries, and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 30 days after receipt of the National Association's written request, according to Article Two, Subsection 2.17.2 (ODFI Return Rate Reporting); (3) the information provided by the ODFI substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below the return threshold for 180 additional days; (4) 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 (5) the Participating DFI failed to comply with a direct obligation to the National Association, as defined by these rules;*
- for a rules enforcement proceeding initiated in response to a violation of unauthorized Entries according to Part 10.2 (ODFI Reporting Requirements) of this Appendix Ten, a copy of the National Association's written request for information according to Subpart 10.2.1 (National Association Request for Information) of this Appendix Ten.

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 10.4.6.2 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;*
- 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.

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## Improving ACH Network Quality – Unauthorized Entry Fee

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*(Approved August 22, 2014– Effective October 3, 2016)*

### SUMMARY

The Improving ACH Network Quality – Unauthorized Entry Fee rule (“Rule”) is intended to improve ACH Network quality by reducing the incidence of ACH debits that are returned as unauthorized. Under this Rule, an ODFI will pay a fee to the RDFI for each ACH debit that is returned as unauthorized (return reason codes R05, R07, R10, R29 and R51 ). Under the Rule, ODFIs will have an economic incentive to improve the quality of the ACH transactions they originate. The Rule will encourage ODFIs to implement processes or tools with their Originators to address practices that result in returns, such as unclear, confusing or deceptive authorizations, and unclear or improper identification of transactions. RDFIs will be compensated for a portion of the costs they bear for handling unauthorized transactions, and will experience reduced costs due to a reduction in unauthorized transactions over time.

### KEY COMPONENTS OF RULE AMENDMENT

#### A. *Unauthorized Entry Fee*

The Rule will require an ODFI to pay a fee to an RDFI for any ACH debit returned due to a reason of unauthorized (return reason codes R05, R07, R10, R29 and R51). International ACH Transactions (IAT) initially will not be covered by the fee, but could be included in the future.<sup>2</sup> Through the system of collection and distribution of fees described below, the RDFI will be the beneficiary of each fee paid by the ODFI.

#### B. *Methodology for Setting Fees*

The Rule defines a methodology by which NACHA staff will set and review every three years the amount of the Unauthorized Entry Fee. In setting the amount of the fee, NACHA staff will apply several stated principles, including the review of RDFI cost surveys. Based on the results of the current data collection on RDFIs’ costs for handling unauthorized transactions, NACHA estimates that the fee amount will be in the range of \$3.50 - \$5.50 per return. NACHA will continue to collect cost data from additional RDFIs throughout the implementation period to validate and refine this weighted cost average.

#### C. *Collection and Disbursement of Fees*

The Rule provides that ODFIs agree to pay the Unauthorized Entry Fee, and that ODFIs and RDFIs authorize debits and credits to their accounts for the collection and distribution of the fees. NACHA and the two ACH Operators will arrange for a system to collect and distribute the fees; the charges and credits for these fees will be reflected on a Participation DFI’s statement from its ACH Operator. The amount of the Unauthorized Entry Fee will be included in the 2016 edition of the *NACHA Operating Rules*.

### IMPACT TO PARTICIPANTS

*All Participants:* NACHA expects that all ACH Network participants will experience at least some indirect benefit through higher quality origination, fewer exceptions, greater customer satisfaction, and lower reputational risk for the ACH Network.

*ODFIs:* ODFIs will directly bear the costs of the Unauthorized Entry Fees (currently estimated to range between \$3.50 - \$5.50 per unauthorized Entry). Further, ODFIs will have costs to the extent that they work with their Originators to implement systems, processes and tools to lower return rates.

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<sup>2</sup> NACHA will not be the beneficiary of any of the fees under the Rule. No portion of any fees under this Rule will be passed to NACHA for NACHA’s benefit.

*Originators:* Originators will likely bear at least some of the costs initially borne by their ODFIs, such as through transaction fees, returns fees and other service fees.

*ACH Operators:* The ACH Operators will likely incur costs to implement a system to assess, collect and disburse the Unauthorized Entry Fees.

*RDFIs:* RDFIs will be credited for fees via their settlement accounts. Some RDFIs might incur minimal costs to account for fees credited to their accounts, which serve to offset operational costs.

*Receivers:* Receivers likely will not incur any costs as a result of this Rule. However, Receivers will directly benefit from fewer unauthorized entries being posted to their accounts, including a reduction in the time and effort required to dispute such transactions.

## EFFECTIVE DATE

This Rule will become effective beginning with applicable return entries that have a Settlement Date of October 3, 2016 (a Monday, and the first banking day of the quarter). This effective date provides the ACH Operators and financial institutions approximately 25 months to prepare for and implement the Rule. NACHA and the ACH Operators will need time complete and implement the billing system to collect and disburse the fees. ODFIs and RDFIs will need time to properly account for fees paid and received. ODFIs will need time to work with their Originators, if desired, on implementing systems, tools and processes to reduce returns and thereby minimizing fees they incur. ODFIs in particular should note that fees applied to return entries as of October 3, 2016 would relate to forward entries initiated as early as August 1, 2016.

This effective date varies from the standard practice of using the third Friday of September. Since the ACH Operators will count the covered return entries on a monthly basis and reflect them on a monthly billing statement, in this instance, it makes sense to have the Rule become effective on the first business day of the month.

## TECHNICAL SUMMARY

Below is a summary of the impact of this rule change 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 1.11 (Unauthorized Entry Fee)* – creates a new section regarding Unauthorized Entry Fees.
- *Article One, Subsection 1.11.1 (General Rule on Unauthorized Entry Fee)* – establishes the obligation of the ODFI to pay the fees to the respective RDFIs.
- *Article One, Subsection 1.11.2 (Determination and Review of Unauthorized Entry Fee)* – establishes the authority of the NACHA staff, and the methodology used, to determine the specific amounts of the Quality Fees.
- *Appendix Eight, Part 8.68 (Unauthorized Entry Fee)* – adds “Unauthorized Entry Fee” to the list of defined terms.

**Implementation Date: October 3, 2016**

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*As approved August 22, 2014, effective October 3, 2016, the Rules are modified as follows for the rule changes specific to Improving Network Quality – Unauthorized Entry Fee.*

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ARTICLE ONE

General Rules

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► **SECTION 1.11 Unauthorized Entry Fee (new section)**

**SUBSECTION 1.11.1 General Rule on Unauthorized Entry Fee (new subsection)**

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

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

**SUBSECTION 1.11.2 Determination and Review of Unauthorized Entry Fee (new subsection)**

*The staff of the National Association will determine and re-evaluate every three years the amount of the Unauthorized Entry Fee. In determining the amount of the Unauthorized Entry Fee, the staff of the National Association will apply the following principles:*

- a) The National Association will conduct a survey of RDFIs to determine the expense incurred in handling and returning unauthorized Entries. The survey will include a representative sample of RDFIs of different sizes;*
- b) The amount of the Unauthorized Entry Fee will be set at a level that is less than the weighted average cost determined by such a survey;*
- c) The Unauthorized Entry Fee will be set at a level that staff reasonably believes will provide an incentive for Participating DFIs to improve the quality of their Originators' authorization and origination practices without unduly discouraging participation in the ACH Network; and*
- d) In re-evaluating the amount of the Unauthorized Entry Fee, the staff of the National Association will consider the extent to which the then-current fee amount has had an effect on Return rates.*

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ARTICLE EIGHT

Definitions of Terms Used in These Rules

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► **SECTION 8.68 "Unauthorized Entry Fee" (new section)**

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

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## Minor Rules Topics

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### SUMMARY

These rules amendments (“Rule”) change seven specific areas of the *NACHA Operating Rules (Rules)* to address minor topics. Minor changes to the *Rules* have little to no impact on ACH participants and no significant economic impact. Specifically, this ballot addresses changes related to:

- (1) Point-of-Sale (POS) Entries – Clarification of General Rule;
- (2) Return Fee Entry Formatting Requirements;
- (3) Entry Detail Record for Returns – Clarification Regarding POP Entries;
- (4) Clarification of RDFI’s Obligation to Recredit Receiver;
- (5) Clarification on Prenotification Entries and Addenda Records;
- (6) Clarification of Audit Requirements for Participating DFIs Reporting Network Administration Fees; and
- (7) Clarification on Company Identification for P2P WEB Credit Entries.

### KEY COMPONENTS OF RULE AMENDMENT

#### 1. **Point-of-Sale (POS) Entries – Clarification of General Rule** (effective January 1, 2015)

This Rule re-aligns the general rule for POS Entries with the definition of POS Entries in Article Eight.

A POS Entry is generally considered to be a debit Entry initiated at an electronic terminal by a consumer to pay an obligation incurred in a point-of-sale transaction. However, a POS Entry can also be an adjusting or other credit Entry related to the debit Entry, transfer of funds, or obligation (for example, a credit to refund a previous point-of-sale transaction). While the definition of POS within Article Eight recognizes these Entries as both debits and credits, the general rule for POS within Article Two currently identifies POS Entries only as debits. This Rule corrects this discrepancy.

#### 2. **Return Fee Entry Formatting Requirements** (effective January 1, 2015)

This Rule revises the formatting requirements for certain Return Fee Entries to align with the formatting requirements specific to the underlying transaction to which the return fee relates. Specifically, this Rule modifies the description of the Individual Name Field in a PPD Return Fee Entry related to a returned ARC, BOC, or POP Entry to require that it contain the same information identified within the original ARC, BOC, or POP Entry. The Individual Name Field is optional for ARC, BOC, and POP; therefore, this field (1) may include the Receiver’s name, (2) may include a reference number, identification number, or code that the merchant needs to identify the particular transaction or customer, or (3) may be blank. Presently, the name of the Receiver must be included in all PPD Entries.

With ARC, BOC, or POP Entries, where a reading device must be used to capture the Receiver’s routing number, account number, and check serial number, it is difficult for the Originator to capture the Receiver’s name in an automated fashion. For this reason, the *NACHA Operating Rules* do not require Originators to include the Receiver’s name in the ARC, BOC, or POP Entry Detail Record. Originators are permitted the choice of including either the Receiver’s name, or a reference number, identification number, or code necessary to identify the transaction, or the field may be left blank. Because information contained within the returned ARC, BOC, or POP Entry is typically used to create a related Return Fee Entry, the Receiver’s name is likely not readily available to the Originator for use in the Return Fee Entry, especially when the Receiver’s authorization for the Return Fee Entry was obtained by notice.



This change establishes consistent formatting requirements with respect to the Receiver's name for check conversion entries and related return fees.

### **3. Entry Detail Record for Returns – Clarification Regarding POP Entries** (effective January 1, 2015)

This Rule adds a footnote to the Entry Detail Record for Return Entries to clarify the specific use of positions 40-54 with respect to the return of a POP Entry.

On a forward POP Entry, positions 40-54 represent three separate fields to convey (1) the check serial number (positions 40-48); (2) the truncated name or abbreviation of the city or town in which the electronic terminal is located (positions 49-52); and (3) the state in which the electronic terminal is located (positions 53-54). However, these three fields are not explicitly identified in the Entry Detail Record for Return Entries, causing some confusion among users as to how to map such information from the original forward Entry into the Return Entry format. In cases where unique return formatting requirements exist for certain SEC Codes, footnotes are typically included with the return layout to clarify the proper formatting of such data.

### **4. Clarification of RDFI's Obligation to Recredit Receiver** (effective January 1, 2015)

This Rule clarifies that an RDFI's obligation to recredit a Receiver for an unauthorized or improper debit Entry is generally limited to Consumer Accounts, with certain exceptions for check conversion and international transactions.

Prior to NACHA's rules simplification initiative in 2010, the rules governing a Receiver's right to recredit for unauthorized debit entries clearly limited this provision to debit Entries affecting Consumer Accounts, except as expressly provided for ARC, BOC, IAT, and POP Entries (which can affect both consumer and business accounts). However, when rules language was combined and revised during the simplification process into a general discussion on recredit, some of this clarity was lost, resulting in language that is somewhat ambiguous and the cause of confusion for some ACH participants. This change more clearly defines the intent of the rule requirement for an RDFI to recredit a Receiver.

### **5. Clarification of Prenotification Entries and Addenda Records** (effective January 1, 2015)

This Rule revises the *NACHA Operating Rules* to clarify that, with the exception of IAT Entries, a Prenotification Entry is not required to include addenda records that are associated with a subsequent live Entry.

Generally speaking, the *Rules* require the format of a Prenotification Entry to be the same as a live dollar entry. There are, however, some differences between Prenotes and live Entries to which the Prenotes relate:

- (1) the dollar amount of a Prenotification Entry must be zero;
- (2) a Prenotification Entry is identified by a unique transaction code; and
- (3) addenda records associated with a live Entry are not required with Prenotes (unless the Prenote relates to an IAT Entry).

While the first two formatting criteria above for Prenotification Entries are clearly defined within the technical standards and are commonly understood by industry participants, the issue of whether Prenotification Entries require addenda records is somewhat ambiguous within the *Rules*. This has resulted in confusion for some ACH participants.

The *Rules* require an RDFI receiving a Prenotification Entry to verify only that the account number contained within the Entry is for a valid account. At its discretion, the RDFI also may choose to validate the accuracy of other information contained within a Prenotification Entry; however, it is not obligated to do so. Thus,

while the *Rules* do not prohibit an Originator from transmitting addenda records with Prenotification Entries, an Originator is also not required to include addenda records with such Entries and should have no expectation that an RDFI will do any processing of addenda records and their contents.

**6. Clarification of Audit Requirements for Participating DFIs Reporting Network Administration Fees** *(effective August 22, 2014 – applicable for 2014 audit)*

This Rule revises the annual rules compliance audit provisions for all Participating DFIs to clarify that a Participating DFI's obligation to verify that it has paid annual and per-Entry fees to NACHA is applicable only when that Participating DFI exchanges Entries through a means other than through an ACH Operator (i.e., a direct send between the Participating DFI and another, non-affiliated Participating DFI).

**7. Clarification on Company Identification for P2P WEB Credit Entries** *(effective January 1, 2015)*

This Rule adds language to the Company Identification field description to clarify content requirements for Person-to-Person (P2P) WEB credit Entries.

For P2P WEB credit Entries, the Company/Batch Header Record identifies the P2P service provider (i.e., the consumer Originator's own financial institution or a third-party service provider) rather than the consumer Originator. While the P2P ballot included a change to specifically define service provider content requirements for the Company Name field, it omitted the same clarification for the Company Identification, which is a related field. This change eliminates any potential confusion over proper formatting of this field.

## IMPACT TO PARTICIPANTS

*All Participants:* All ACH Network participants benefit from *Rules* language that is consistent and clear, and that takes established industry practices into consideration. Each of the changes in this Rule serves to improve overall ACH processing efficiency by enhancing or clarifying certain areas within the *Rules* that are troublesome or ambiguous to users. NACHA does not expect ACH Network participants to incur any substantial costs associated with the implementation of the approved changes.

## TECHNICAL SUMMARY

On the following pages is a summary of the impact of the Minor Rules Topics changes 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.

**1. Point-of-Sale (POS) Entries – Clarification of General Rule** *(effective January 1, 2015)*

- *Article Two, Subsection 2.5.11.1 (General Rule for POS Entries)* – modifies text to clarify that a POS Entry may be a credit entry when initiated as an adjusting entry to a previous debit Entry.

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ARTICLE TWO

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

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*SUBSECTION 2.5.11.1 General Rule for POS Entries*

A POS Entry is a debit Entry initiated at an “electronic terminal,” as that term is defined in Regulation E, to a Consumer Account of the Receiver to pay an obligation incurred in a point-of-sale transaction, or to effect a point-of-sale terminal cash withdrawal.

- ▶ *A POS Entry is a debit Entry initiated at an “electronic terminal,” as that term is defined in Regulation E, to a Consumer Account of the Receiver to pay an obligation incurred in a point-of-sale transaction, or to effect a point-of-sale terminal cash withdrawal. A POS Entry may also be an adjusting or other credit Entry related to such debit Entry, transfer of funds, or obligation.*

## 2. Return Fee Entry Formatting Requirements (effective January 1, 2015)

- *Article Two, Subsection 2.14.3 (Formatting Requirements for Return Fee Entries) and Appendix Three, Subpart 3.2.2 (Glossary of Data Elements, Individual Name)* – modifies text to align the formatting requirements with the underlying transaction to which the return fee relates.
- *Appendix Four, Part 4.2 (Table of Return Reason Codes)* – modifies notes for R03 to exclude the use of this code for Return Fee Entries related to ARC, BOC, or POP that do not contain a Receiver name.

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### ARTICLE TWO

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

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### **SUBSECTION 2.14.3 Formatting Requirements for Return Fee Entries**

A Return Fee Entry authorized by notice in accordance with Subsection 2.14.2 (Authorization of Return Fee Entries) must use the Standard Entry Class Code “PPD.” A Return Fee Entry authorized in a manner other than by notice must use the Standard Entry Class Code appropriate to the manner of authorization.

An Originator must submit Return Fee Entries as a separate batch that contains the words “RETURN FEE” in the Company Entry Description field of the Company/Batch Header Record.

The Company Name field of a Return Fee Entry 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.

- ▶ *The Individual Name/Receiving Company Name must identify the Receiver of the Return Fee Entry. The Individual Name field of a PPD Return Fee Entry authorized by notice in accordance with Subsection 2.14.2 (Authorization of Return Fee Entries) and related to an underlying ARC, BOC, or POP Entry must contain the same information identified within the Individual Name/Receiving Company Name field of the ARC, BOC, or POP Entry to which the Return Fee Entry relates.*

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### APPENDIX THREE

## ACH Record Format Specifications

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

**Individual Name:** 22 positions – Entry Detail Record – Mandatory (TEL, WEB, and Returns, dishonored Returns, and contested dishonored Returns for TEL and WEB); 22 Positions – Entry Detail Record – Required (ADV, DNE, POS, PPD, RCK, Returns, dishonored Returns, contested dishonored Returns, COR, refused COR); 22 Positions – Entry Detail Record – Optional (ARC, BOC, POP); 15 Positions – Entry Detail Record – Required (CIE); 15 Positions – Entry Detail Record – Mandatory (MTE)

Except as noted below, this field is entered by the Originator to provide additional identification of the Receiver and may be helpful in identifying returned Entries.

*ADV:* This field contains the name associated with the Advice Routing Number in positions 40-48 of the Entry Detail Record.

*ARC, BOC, POP:* This field may contain the Receiver's name or a reference number, identification number, or code that the merchant needs to identify the particular transaction or customer.

*CIE:* This field is entered by the ODFI to provide additional identification for the Receiver and may be helpful in identifying returned Entries. Field 7, rather than Field 8, of the Entry Detail Record is used for the Individual Name.

*MTE:* Field 7, rather than Field 8, of the Entry Detail Record is used for the Individual Name.

► *PPD:* For a PPD Return Fee Entry authorized by notice in accordance with Subsection 2.14.2 (Authorization of Return Fee Entries) and related to an underlying ARC, BOC, or POP Entry, this field must contain the same information identified within the Individual Name/Receiving Company Name field of the ARC, BOC, or POP Entry to which the Return Fee Entry relates.

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APPENDIX FOUR

Return Entries

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*[Please see the following page.]*

**PART 4.2 Table of Return Reason Codes**

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R01	Insufficient Funds	The available and/or cash reserve balance is not sufficient to cover the dollar value of the debit Entry.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	
R02	Account Closed	A previously active account has been closed by action of the customer or the RDFI.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	
R03	No Account/Unable to Locate Account	The account number structure is valid and it passes the Check digit validation, but the account number does not correspond to the individual identified in the Entry, or the account number designated is not an existing account.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	This Return Reason Code may not be used to return ARC, BOC, or POP Entries or Return Fee Entries related to underlying ARC, BOC, or POP Entries solely because they do not contain the Receiver's name in the Individual Name/Receiving Company Name Field.
R04	Invalid Account Number Structure	The account number structure is not valid.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	The Entry may fail the Check digit validation or may contain an incorrect number of digits.
R05	Unauthorized Debit to Consumer Account Using Corporate SEC Code	CCD or CTX debit Entry was transmitted to a Consumer Account of the Receiver and was not authorized by the Receiver.	RDFI	Extended Return	Consumer	** 60 Calendar Days	Yes	Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries. Article Three, Subsection 3.12.1 - Unauthorized Debit Entry. Article Three, Subsection 3.4.1.2 -Rule Exception for CCD and CTX Entries to Consumer Accounts.	
R06	Returned per ODFI's Request	The ODFI has requested that the RDFI return an Erroneous Entry.	RDFI	Return	Consumer or Non-Consumer	Not defined, determined by ODFI and RDFI.	No	Article Two, Subsection 2.12.2 - ODFI Request for Return.	If the RDFI agrees to return the Entry, the ODFI must indemnify the RDFI according to Article Two, Subsection 2.12.3.

\* 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.

**3. Entry Detail Record for Returns – Clarification Regarding POP Entries** (*effective January 1, 2015*)

- *Appendix Four, Subpart 4.3.4 (Entry Detail Record Format for Returns)* – Adds a footnote to clarify the specific use of positions 40 – 54 for a POP Return Entry.

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APPENDIX FOUR  
Return Entries

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*[Please see following page.]*

**SUBPART 4.3.4 Entry Detail Record Format for Returns**

**RETURNS — ENTRY DETAIL RECORD**  
(excludes IAT entries)

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/ IDENTIFICATION NUMBER/ CHECK SERIAL NUMBER	INDIVIDUAL NAME/ RECEIVING COMPANY NAME	DISCRETIONARY DATA/ PAYMENT TYPE CODE/ CARD TRANSACTION TYPE CODE	ADDENDA RECORD INDICATOR	TRACE NUMBER
Field Inclusion Requirement	M	M	M	M	R	M	O	R	R/M	M	M
Contents	'6'	Numeric <sup>1</sup>	TTTTAAA <sup>2</sup>	Numeric <sup>3</sup>	Alphabetic	\$\$\$\$\$\$\$ <sup>4</sup>	Alphabetic <sup>5</sup>	Alphabetic <sup>5</sup>	Alphabetic <sup>6</sup>	'1'	Numeric <sup>7</sup>
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

**NOTE:** For Return Entries, each field of the Entry Detail Record remains unchanged from the original entry, unless otherwise noted.

1 Changed to the appropriate Return Entry Transaction Code. (See Transaction Codes under currently assigned "Code Values" in Appendix Three.)

2 Changed to the Routing Number of the institution receiving the Return Entry (i.e., the ODFI of the original entry).

3 Changed to the Check Digit calculated according to NACHA standards and based on the Routing Number contained in positions 04-11.

4 For the return of an outbound International ACH Transactions entry originated by a U.S. ODFI, this amount will be different from the amount reflected in the original forward entry if the exchange rate is different at the time of the return.

5 For CIE and MTE entries, positions 40-54 are used for a 15-character Individual Name, and positions 55-76 are used for a 22-character Individual Identification Number.

6 For SHR and POS return entries, this field (positions 77-78) is mandatory and contains the Card Transaction Type Code (positions 77-78) of the original entry.

7 Changed to the Trace Number assigned by the institution preparing the Automated Return Entry.

► **8 For POP return entries, this field (positions 40-54) contains the Check Serial Number (positions 40-48), the Terminal City (positions 49-52), and the Terminal State (positions 53-54) from the original entry.**



#### **4. Clarification of RDFI's Obligation to Recredit Receiver** (effective January 1, 2015)

- *Article Three, Section 3.11 (RDFI Obligation to Recredit Receiver)* – adds language to clarify that the RDFI's obligation to recredit a Receiver for an unauthorized debit entry is generally applicable to Consumer Accounts (except as noted for check conversion and international Entries).

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#### ARTICLE THREE

### Rights and Responsibilities of RDFIs and Their Receivers

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#### **SECTION 3.11 RDFI Obligation to Recredit Receiver**

An RDFI must recredit the accountholder to the extent provided in this Section 3.11 for (a) a debit Entry that was, in whole or in part, not properly authorized under these Rules, as required by these Rules, applicable Legal Requirements, or agreement between the RDFI and the account holder; and (b) a debit Entry to a Receiver's account that is part of an Incomplete Transaction. This recredit requirement does not apply if the accountholder is a Receiver that has waived any right to recredit in accordance with the requirements of Subsection 3.11.4 (Receiver's Waiver of RDFI's Recredit Obligation).

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

## 5. Clarification of Prenotification Entries and Addenda Records *(effective January 1, 2015)*

- *Article Two, Subsection 2.5.3 (General Rule for CCD Entries (Corporate Credit or Debit Entry))* – adds language to clarify that a Prenotification Entry for a Health Care EFT transaction does not require an Addenda Record
- *Appendix One, Part 1.4 (File Structure)* – clarifies that Addenda Records are not required for any Prenotification Entry except those related to IAT Entries.
- *Appendix Three, Subpart 3.1.8 (Sequence of Records for CCD Entries)* – revises note to exempt Health Care EFT Transaction Prenotification Entries from having to contain an Addenda Record Indicator value of “1”.

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### ARTICLE TWO

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

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### **SUBSECTION 2.5.3 General Rule for CCD Entries (Corporate Credit or Debit Entry)**

A CCD Entry is originated by an Organization to or from the account of that Organization or another Organization. A CCD Entry may be a credit Entry or a debit Entry, and may provide payment related information in one Addenda Record. A CCD Entry may also be a Non-Monetary Entry that carries payment related information in one Addenda Record.

A CCD Entry that is a Health Care EFT Transaction must include one Addenda Record that contains the ASC X12 835 TRN (Reassociation Trace Number) data segment in the Payment Related Information field.

- ▶ *A CCD Entry that is a Health Care EFT Transaction must include one Addenda Record that contains the ASC X12 835 TRN (Reassociation Trace Number) data segment in the Payment Related Information field. A Prenotification Entry that is initiated for a Health Care EFT transaction is not required to contain an Addenda Record.*

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### APPENDIX ONE

## ACH File Exchange Specifications

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### **PART 1.4 File Structure**

#### ***File Header Record***

The File Header Record designates File characteristics and identifies the immediate origin (Sending Point or ACH Operator) and destination (Receiving Point or ACH Operator) of the Entries contained within the File or within the Transmitted batched data. In addition, this Record includes date, time, and File identification fields, which can be used to identify the File uniquely.

#### ***Company/Batch Header Record***

The Company/Batch Header Record identifies the Originator and briefly describes the purpose of the Entry. For example, “Gas Bill” or “REG SALARY” indicates the reason for the transaction originated by the

Originator. The Company/Batch Header Record contains the routing number of the ODFI for settlement, routing of Returns, and other control purposes. In addition, the Company/Batch Header Record indicates the intended Effective Entry Date of all transactions within the batch. The information contained in the Company/Batch Header Record applies uniformly to all subsequent Entry Detail Records in the batch.

#### **Entry Detail Record/Corporate Entry Detail Record**

Entry Detail Records contain that information sufficient to relate the Entry to the Receiver, i.e., Receiver's account number at the RDFI, identification number, name, amount, and debit or credit, as indicated by the Transaction Code.

The information in the Company/Batch Header Record must be incorporated with the Entry Detail Record to fully describe the Entry and all participants in the transaction. The information in the Company/Batch Header Record identifies the Originator; the Trace Number identifies the ODFI; DFI routing and account information identifies both the RDFI and the specific account. In addition to the basic Entry format, Transaction Codes for Entry Detail Records have been defined to accommodate Prenotification records, zero dollar CCD, CTX, and IAT Entries, and Return Entries.

Prenotifications are identical to the basic Entry format but contain appropriate Transaction Codes and zeros in the Amount field. Prenotifications can be batched with other dollar entries or batched separately.

- ▶ *Entry Detail Records for Prenotifications are identical to Entry Detail Records for “live” Entries except that they contain appropriate Transaction Codes and zeroes in the Amount field. Prenotifications can be batched with other dollar entries or batched separately.*

Zero dollar CCD, CTX, and IAT Entries are identical to the basic Entry format but contain appropriate Transaction Codes and zeros in the Amount field. Zero dollar CCD, CTX, and IAT Entries can be batched with other CCD, CTX, and IAT dollar Entries or batched separately. A zero dollar CCD, CTX Entry must be accompanied by at least one Addenda Record. A zero dollar IAT Entry must be accompanied by at least the seven mandatory Addenda Records.

Return Entries are distinguished by special Transaction Codes and must be batched separately from other dollar entries.

#### **Addenda Records**

Originators can use Addenda Records to supply additional information about Entry Detail Records that will pass from the ODFI through the ACH Operator to the RDFI. Addenda Records associated with the original Entry Detail Record or Corporate Entry Detail Record are not included with any Entry Detail Record being returned, with the exception of IAT Entries. Only NACHA sanctioned formats are permitted, as specified by the Addenda Type Code. Addenda Record information may only be used for the purpose of Transmitting payment related information. Any other use is prohibited. Each application, with its corresponding number of addenda records, is listed in the chart on the following page.

- ▶ **Addenda Records and Prenotification Entries**

*Prenotification Entries may, but are not required to, include Addenda Records, with the exception of IAT Prenotification Entries. IAT Prenotification Entries must include the seven mandatory Addenda Records. Originators desiring to validate proper formatting of remittance data for future entries to a Non-Consumer Account should, instead, transmit a Zero Dollar Entry with the appropriate Zero Dollar Transaction Code.*

***Company/Batch Control Record***

The Company/Batch Control Record contains the counts, hash totals, and total dollar controls for the preceding Entries within the batch.

All Entry Detail Records are hashed. Both Entry Detail Records and Addenda Records are included in the Entry/addenda counts; Batch Header and Batch Control Records are not included.

***File Control Record***

The File Control Record contains dollar, Entry, and hash total accumulations from the Company/Batch Control Records in the File. This Record also contains counts of the number of blocks and the number of batches within the File (or batched data Transmitted to a single destination).

SEC CODE	CONTENTS	REFERENCE	MAXIMUM NUMBER ADDENDA RECORDS	OPTIONAL/ MANDATORY <i>NOTE: Prenotes do not require addenda records (with the exception of IAT)</i>
ACK	ANSI ASC X12 REF (Reference) data segment	Appendix Six, Subpart 6.4.2; Appendix Three, Subpart 3.2.2	1	Optional
ADV	N/A	N/A	0	N/A
ARC	N/A	N/A	0	N/A
ATX	ANSI ASC X12 REF (Reference) data segment	Appendix Six, Subpart 6.4.3; Appendix Three, Subpart 3.2.2	1	Optional
BOC	N/A	N/A	0	N/A
CCD, PPD	Payment Related ANSI ASC X12 data segments, NACHA endorsed banking convention	Appendix Three, Subpart 3.1.8, Subpart 3.1.17, and Subpart 3.2.2	1	Optional
CIE	Payment Related ANSI ASC X12 data segments	Appendix Three, Subpart 3.1.9 and Subpart 3.2.2	1	Optional
COR/Refused COR (Notification of Change)	Corrected Data	Appendix Five, Part 5.4; Appendix Three, Subpart 3.2.2	1	Mandatory
CTX	ANSI ASC X12.5 or X12.6 syntax, an ASC X12 transaction set containing a BPR or BPS data segment, or payment related UN/EDIFACT syntax	Appendix Three, Subpart 3.1.10 and Subpart 3.2.2	9,999	Optional
DNE	NACHA endorsed banking convention	Appendix Three, Subpart 3.1.11 and Subpart 3.2.2	1	Mandatory
ENR	NACHA endorsed banking convention	Appendix Three, Subpart 3.1.12 and Subpart 3.2.2	9,999	Mandatory
IAT	Parties to the transaction; payment related remittance information	Appendix Three, Subpart 3.1.13 and Subpart 3.2.2	12	Mandatory (7) Optional (5)
POP	N/A	N/A	0	N/A
POS, SHR, MTE	Terminal and card transaction information	Appendix Three, Subpart 3.1.16, Subpart 3.1.14, Subpart 3.1.19, and Subpart 3.2.2	1	Mandatory
RCK	N/A	N/A	0	N/A
Returns, Dishonored Returns, Contested Dishonored Returns	Return entry data	Appendix Four, Part 4.3, Part 4.4, Part 4.5; Appendix Three, Subpart 3.2.2	1	Mandatory
TEL	N/A	N/A	0	N/A
TRC	N/A	N/A	0	N/A
TRX	National Association for Check Safekeeping syntax	Appendix Three, Subpart 3.1.22 and Subpart 3.2.2	9,999	Mandatory
WEB	Payment related ANSI ASC X12 data segments, NACHA endorsed banking convention	Appendix Three, Subpart 3.1.23 and Subpart 3.2.2	1	Optional
XCK	N/A	N/A	0	N/A

APPENDIX THREE

ACH Record Format Specifications

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*[Please see the following page.]*

**SUBPART 3.1.8 Sequence of Records for CCD Entries**

**CCD ENTRY DETAIL RECORD**

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

**CCD ADDENDA RECORD**

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

▲ 1 For Health Care EFT Transactions (**except Prenotification Entries**), the Addenda Record Indicator of the CCD Entry must always contain a value of "1."  
 2 For Health Care EFT Transactions, the Payment Related Information Field of the CCD Entry Addenda Record must always contain the ASC X12 Version 5010 835 TRN Segment.

## 6. Clarification of Audit Requirements for Participating DFIs Reporting Network Administration Fees *(effective August 22, 2014 – applicable for 2014 audit)*

- *Appendix Eight, Part 8.2 (e) (Audit Requirements for All Participating DFIs, Third-Party Service Providers, and Third-Party Senders)* – clarifies that this audit requirement applies only to Participating DFIs reporting and filing fees for transactions that are not transmitted via an ACH Operator.

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### APPENDIX EIGHT

## Rule Compliance Audit Requirements

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### PART 8.2 Audit Requirements for All Participating DFIs, Third-Party Service Providers, and Third-Party Senders

Each Participating DFI, Third-Party Service Provider, and Third-Party Sender must conduct the following audit of ACH operations. These audit specifications apply generally to all Participating DFIs, regardless of a Participating DFI's status as an ODFI or RDFI. The specifications also apply to Third-Party Service Providers and Third-Party Senders, with the exception of Part 8.2, item (e).

- a. Verify that a Record of each Entry is retained for six years from the date the Entry was Transmitted, except as otherwise expressly provided in these Rules. Verify that a printout or reproduction of the information relating to the Entry can be provided, if requested by the Participating DFI's customer or any other Participating DFI or ACH Operator that originated, Transmitted, or received the Entry. (Article One, subsections 1.4.1 and 1.4.2)
- b. When a Record required by these Rules is created or retained in an Electronic form, verify that the Electronic form (a) accurately reflects the information in the Record, and (b) is capable of being accurately reproduced for later reference, whether by Transmission, printing, or otherwise. (Article One, subsection 1.4.3)
- c. Verify that the Participating DFI conducted an audit of its compliance with the rules in accordance with Appendix Eight (Rule Compliance Audit Requirements) for the previous year. (Article One, subsection 1.2.2)
- d. Verify that required encryption or a secure session is used for banking information transmitted via an Unsecured Electronic Network. (Article One, subsection 1.7)
- e. Verify that the Participating DFI has reported and paid to the National Association (a) all annual fees, and (b) a per-Entry fee for each Entry that is Transmitted or received by the Participating DFI, including those Entries that are not processed through an ACH Operator but are exchanged with another non-affiliated Participating DFI. (Article One, subsection 1.11)
- ▶ e. *Verify that for any Entries that are not processed through an ACH Operator but are exchanged with another non-affiliated Participating DFI, the Participating DFI has filed the appropriate N-7 form and paid all Network Administration Fees as required by Section 1.11 (Network Administration Fees). (Article One, section 1.11)*
- f. Verify that the Participating DFI has conducted an assessment of the risks of its ACH activities and has implemented a risk management program on the basis of such an assessment. (Article One, subsection 1.2.4)



- g. Verify that the Participating DFI has established, implemented and updated, as appropriate, security policies, procedures and systems as required by Article One, Section 1.6. (Article One, Section 1.6).

## 7. Clarification on Company Identification for P2P WEB Credit Entries *(effective January 1, 2015)*

- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements – Company Identification)* – modifies text to clarify that the information contained in the Company Identification field identifies the Person-to-Person (P2P) service provider; the P2P service provider is either the ODFI or a Third-Party Service Provider.

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### APPENDIX THREE

## ACH Record Format Specifications

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

**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 Identification Code Designators (ICD) 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).*

## 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 2015 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 (2015). 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, 2015 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, 2015, and January 31, 2016. Participating DFIs that exceed the threshold during the calendar year must aggregate all prior quarters’ fees in their current quarter’s Form N-7 (2015) payment. Participating DFIs whose direct send volume is below this threshold must submit the above data and fees for calendar year 2015 by January 31, 2016.

**National Automated Clearing House Association  
2015 Schedule of Fees**

**ACH Network Administration Fees**

This Schedule of Fees has been established by the NACHA Board of Directors for calendar year 2015 in accordance with the requirements of the *NACHA Operating Rules*, Article One (General Rules), Section 1.11 (Network Administration Fees).

- Per-Entry Fee (January 1–December 31) . . . . . \$ .000162
- Annual Fee . . . . . \$ 216.00

## NETWORK ADMINISTRATION FEES — FILING REQUIREMENTS FOR PARTICIPATING DEPOSITORY FINANCIAL INSTITUTIONS

Form N-7 (2015) 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 2015 calendar year.

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

Any Participating DFI that transmits and receives 100% of its ACH entries during 2015 through an ACH Operator or with affiliated Participating DFIs does not need to file Form N-7 (2015). 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, 2015 must file on a quarterly basis thereafter. The submission deadlines for quarterly filers are April 30, July 31, and October 31, 2015, and January 31, 2016. 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 2015 data and fees by January 31, 2016.

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

To pay by ACH credit, credit must be initiated by the organization filing Form N-7. UPIC Routing & Transit # 021052053, Acct # 59058945. Use CCD format for single filing. Complete in Batch Header (1) Company Name (2) Company Entry Description (specify Form N-7 (2015)).

### **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 2015 per entry fee of \$.000162

Line 5. Multiply line 3b by line 4 [example: (line 3b) 100,000 x (line 4) \$.000162 = (line 5) \$16.20]

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

***Still Need Additional Information?***

Downloadable Forms and Instructions are available at <https://www.nacha.org/Ntwrkadminfee> or contact Member Services, 800-487-9180 or 703-561-1100 or email: [info@nacha.org](mailto:info@nacha.org).

**FORM N-7 (2015)**

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

	<i>Period</i>	<i>Filing Deadline</i>
<b>For annual filers:</b>	<input type="checkbox"/> December 31, 2015	January 31, 2016
<b>For quarterly filers:</b>	<input type="checkbox"/> March 31, 2015	April 30, 2015
	<input type="checkbox"/> June 30, 2015	July 31, 2015
	<input type="checkbox"/> September 30, 2015	October 31, 2015
	<input type="checkbox"/> December 31, 2015	January 31, 2016

- 1. Financial Institution Name \_\_\_\_\_
- 2. Business Address \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
- 3. Direct Send Information
  - a. 2015 direct send ACH entries by routing number of non-affiliated Participating DFI (*see instructions*)

**DIRECT SEND DETAIL**

ROUTING NUMBER	ENTRIES RECEIVED	ENTRIES ORIGINATED
<b>TOTALS</b>		
<b>GRAND TOTAL (TOTAL RECEIVED + TOTAL ORIGINATED)</b>		

**FORM N-7 (2015)**  
*(continued)*

- b. 2015 total direct send ACH entries *(see instructions)* \_\_\_\_\_
4. 2015 per entry fee x \$.000162
5. Uncollected 2015 Network Administrative Fees (line 3b x line 4) \$ \_\_\_\_\_
6. Payment Due: (Amount on line 5) Check enclosed \_\_\_\_\_ or Date of ACH credit \_\_\_\_\_  
*(If less than \$1.00, no payment due, submit form only)*

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

Signature \_\_\_\_\_ Date \_\_\_\_\_

Printed Name \_\_\_\_\_

Title \_\_\_\_\_

Financial Institution Name \_\_\_\_\_

Email Address \_\_\_\_\_ Phone Number \_\_\_\_\_

*Mail completed form and payment to:*

NACHA – The Electronic Payments Association  
Attn: Finance Department  
2550 Wasser Terrace, Suite 400  
Herndon, VA 20171