



2019 NACHA RULES UPDATE

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2019 NACHA RULES UPDATE FOR ACH

Also Known As Compliance Update For ACH Originators

This 2019 NACHA Rules Update for ACH (“NACHA Update”) is to provide a summary description of changes to the NACHA Operating Rules & Guidelines (“NACHA Rules”).

Please see the summary description as to each amendment noted below. For further information we recommend you obtain a copy of the 2019 NACHA Operating Rules and Guidelines. The NACHA Rules are published annually and may be referenced or ordered at www.nacha.org. The 2019 edition of the NACHA Operating Rules & Guidelines contains changes related to these amendments. More detailed information regarding these changes may also be found at www.nacha.org. If you have any questions, please feel free to contact your Treasury Services Representative.

SAME DAY ACH

Providing Faster Funds Availability

Effective September 20, 2019

Details:

Establishes additional funds availability standards for ACH credits

- Funds from Same Day ACH credits processed in the existing, first processing window will be made available by 1:30 p.m. in the RDFI's local time
- Funds from non-Same Day ACH credits will be available by 9:00 a.m. RDFI's local time on the Settlement Date, if the credits were available to the RDFI by 5:00 p.m. local time on the previous day (i.e., apply the existing "PPD rule" to all ACH credits)

Technical:

The following changes to technical language represent modifications to the NACHA Operating Rules:

- Article Three, Subsection 3.3.1 General Rule for Availability of Credit Entries to Receivers
- Article Three, Subsection 3.3.1.1 Availability of Credits that are Not Same Day Entries
- Article Three, Subsection 3.3.1.2 Availability of Credits that are Same Day

Increasing the Same Day ACH Dollar Limit

Effective March 2020

Details:

Increases the per-transaction dollar limit for Same Day ACH transactions to \$100,000

- Currently, Same Day ACH transactions are limited to \$25,000 per transaction
- While the current limit covers approximately 98% of ACH transactions, there are many use cases for which a higher dollar limit will better enable end users to utilize Same Day ACH. For example, a higher transaction limit would better enable:
 - B2B payments, in which only approximately 89% of transactions are currently eligible
 - Claim payments, which are often for larger dollar amounts are time sensitive in nature
 - Reversal for a larger pool of transactions, including all Same Day ACH transactions

Technical:

The following changes to technical language represent modifications to the NACHA Operating Rules to adjust the per-transaction dollar limit to \$100,000 for Same Day ACH entries:

- *Article Eight, Definitions of Terms, Section 8.99 Same Day Entry*
- *Appendix Three, Glossary of Data Elements, Settlement Date*
- *Appendix Ten, Rules Enforcement, Subpart 10.4.6 ACH Rules Enforcement Panel*

Expanding Same Day ACH

Effective September 18, 2020

Details:

Creates a third Same Day ACH processing window that expands Same Day ACH availability by 2 hours

- Currently, the latest that an ODFI can submit files of Same Day ACH transactions to an ACH Operator is 2:45 p.m. ET (11:45 a.m. PT)
- The new window will allow Same ACH Day files to be submitted until 4:45 p.m. ET (1:45 p.m. PT), providing greater access for all ODFIs and their customers
- The timing of this new processing window is intended to balance the desire to expand access to Same Day ACH through extended hours with the need to minimize impacts on financial institutions' end-of-day operations and the re-opening of the next banking day

Technical:

The precise timing of ACH file processing schedules, including this new third Same Day ACH processing window, are not set in the Rules, but instead are determined by each ACH Operator.

The following changes to technical language represent modifications to the NACHA Operating Rules:

- *Article Three, Subsection 3.3.1.1 General Rule for Availability of Credits:* To address funds availability requirements for credit Same Day Entries received in the third same-day processing window
- *Appendix Three, Glossary of Data elements, Company Descriptive Date:* To include the optional indicator for Same Day ACH entries that the Originator desires to settle in the third window.

Impact:

Final implementation of the new Same Day ACH processing window is contingent upon receiving timely notification from the Federal Reserve Board of Governors of changes to Federal Reserve services necessary to support it.

- The Federal Reserve process likely includes a public comment period on changes to the Federal Reserve's National Settlement Service for interbank settlement and to Fedwire Funds
- If approval is received by June 30, 2019, then the effective date of the new SDA window would remain as balloted – September 18, 2020
- If approval is received between July 1 and December 31, 2019, then the effective date would be extended by 6 months to March 19, 2021

Return for Questionable Transaction

Effective June 21, 2019

Details:

RDFIs may but are not required to use return reason code R17 to indicate that the RDFI believes the entry was initiated under questionable circumstances. RDFIs electing to use R17 for this purpose will use the description “QUESTIONABLE” in the Addenda Information field of the return. An R17 in conjunction with this description enables these returns to be differentiated from returns for routine account number errors.

Technical:

This Rule modifies the following areas of the NACHA Operating Rules

- Appendix Three, Subpart 3.2.2 Glossary of Data elements (Addenda Information) to address proper formatting within the Addenda information field when using R17 to return a questionable transaction.
- Appendix Four, Part 4.2 (Table of Return Reason Codes) to include using R17 for Entry with Invalid Account Number Initiated under Questionable Circumstances.

Impact:

Potential Impacts:

Financial institutions may need to implement the capability to use the Addenda Information field if it is not an existing capability. They may also choose to manually process R17 returns.

Supplementing Fraud Detection Standards for WEB Debits

Effective January 1, 2020

Details:

Currently, ACH Originators of WEB debit entries are required to use a “commercially reasonable fraudulent transaction detection system” to screen WEB debits for fraud. This existing screening requirement will be supplemented to make it explicit that “account validation” is part of a “commercially reasonable fraudulent transaction detection system.” The supplemental requirement applies to the first use of an account number, or changes to the account number.

Technical:

This Rule modifies the following areas of the NACHA Operating Rules:

Article Two, Subsection 2.5.17.4 (Additional ODFI Warranties for Debit WEB Entries) to make explicit that a fraudulent transaction detection system must, at a minimum, validate the account to be debited.

Impact:

Potential Impacts:

- Possible re-tooling of ACH Originators’ fraud detection systems
 - Or implementation of a system for Originators who currently do not perform any fraud detection for WEB debits
 - These impacts could increase the cost of originating WEB debits for some parties
- RDFIs could receive a greater volume of ACH pre-notifications, micro-transactions, or other account validation requests
 - Some could be in lieu of receiving live-dollar transactions initially

Supplementing Data Security Requirements

Effective in two phases (See “Impact”)

Details:

The existing ACH Security Framework including its data protection requirements will be supplemented to explicitly require large, non-FI Originators, Third-Party Service Providers (TPSPs) and Third-Party Senders (TPSs) to protect deposit account information by rendering it unreadable when it is stored electronically.

Implementation begins with the largest Originators and TPSPs (including TPSs) and initially applies to those with ACH volume of 6 million transactions or greater annually. A second phase applies to those with ACH volume of 2 million transactions or greater annually.

Technical:

This Rule modifies the following areas of the NACHA Operating Rules:

Article One, Section 1.6 (Security requirements) to require each Non-Consumer Originator that is not a Participating DFI, each Third-party Service Provider, and each Third-Party Sender, whose ACH Origination or Transmission volume exceeds 6 million Entries annually to protect DFI Account Numbers used in the initiation of Entries by rendering them unreadable when stored electronically.

Impact:

Effective Dates:

- Phase 1 – June 30, 2020 for Originators and Third-Parties with ACH volume greater than 6 million in 2019
- Phase 2 – June 30, 2021 for Originators and Third-Parties with ACH volume greater than 2 million in 2020

Potential Impacts:

- Implementation for those Originators and Third-Parties that currently would not be compliant
- For ODFIs, informing Originators of their direct compliance obligations

Minor Rules Topics

Effective January 1, 2019

Details:

ACH Operator Edits

This change aligns the Rules with current ACH Operator file editing practices.

Clarification on TEL Authorization Requirement

This change makes clear that the general rules governing the form of authorization for all consumer entries apply to TEL entries. This rule also incorporates a reference to consumer account within the general rules for TEL entries.

Clarification of RDFI Obligation to Return Credit Entry Declined by Receiver

This change clarifies the specific conditions under which an RDFI is excused from its obligation to return a credit entry. It also modifies the language to refer to an entry being “declined” (rather than “refused”) by the Receiver.

Editorial Clarification on Reinitiation of Return Entries

This editorial change clarifies the existing intent that reinitiation is limited to 2 times.

Editorial Clarification of RDFI Liability upon Receipt of a Written Demand for Payment

This editorial clarification makes clear that an RDFI may return a Written demand for Payment only if it was not properly originated by the ODFI.

Technical:

These changes modify the following areas of the NACHA Operating Rules:

ACH Operator Edits – changes requested by an ACH Operator to reflect existing file editing practices, primarily related to duplicate file detection and customer notification (Appendix Two, Part 2.1, Part 2.2, Part 2.3, Part 2.4, Part 2.5, Appendix three, Subpart 3.2.1)

TEL Authorization – clarifies that general authorization requirements apply to authorization of TEL entries, and that TEL entries are to consumer accounts; no change to intent (Article Two, Subsection 2.5.15.1, Subsection 2.5.15.2)

Credit refused by Receiver – reflects existing practices regarding circumstances under which an RDFI is, or is not, obligated to return a credit entry that has been declined by a Receiver (Article Three, Subsection 3.8.3.2)

Reinitiation – clarifies language that reinitiation is limited to two times; no change to intent (Article Two, Subsection 2.12.4.1)

Reclamations – clarifies language regarding conditions under which an RDFI may return a Reclamation entry or reject a Written Demand for Payments; no change to intent (Article Three, Subsection 3.6.2)

Impact:

Minor changes to the Rules have little-to-no impact on ACH participants and no significant processing or financial impact.

ACH Rules Compliance Audit Requirements

Effective January 1, 2019

Details:

This rule change modifies the Rules to provide financial institutions and third-party service providers with greater flexibility in conducting annual Rules compliance audits. The rule does not change the requirement to conduct a Rules compliance audit annually, but rather changes the structure of the audit requirement within the Rules by consolidating requirements for the annual Rules compliance audit into one section and removing redundant material.

Technical:

This Rule modifies the following areas of the NACHA Operating Rules:

- Article One, Subsection 1.2.2 (Audits of Rules Compliance) – consolidates the core audit requirements described within Appendix Eight under the general obligation of participating DFIs and third-party service providers/senders to conduct an audit.
- Appendix Eight (Rule Compliance Audit Requirements) – eliminates the current language contained within Appendix Eight; combines relevant provisions with the general audit obligation required under Article One, Subsection 1.2.2

The language changes become effective on January 1, 2019 to apply to audits required to be conducted by December 31, 2019.

Impact:

The language changes become effective on January 1, 2019 to apply to audits required to be conducted by December 31, 2019.

Some organizations may decide to change or modify their methodologies for conducting audits

- Parties that currently rely exclusively on Appendix Eight as a checklist for conducting their audits should be aware of its limitations (noted earlier) and show be prepared to audit on all relevant rules, even those not currently expressly listed within current Appendix Eight language
- Current users of Appendix Eight's checklist should already be consulting the language within the Articles themselves and the remaining Appendices to ensure compliance with all relevant sections of the Rules.

For those financial institutions and third-parties that may prefer a workbook or guide to facilitate their annual audit, more robust educational resources exist separately in the form of audit guides.