

Nacha Operating Rules Changes



Effective January 1, 2021

Enforcement		
Current Rule	Upcoming Changes	Action Required
<p>Although Nacha, as the governing body of the ACH Network, has Rules Enforcement authority, it does not explicitly possess the ability to deal with situations that caused severe harm to the ACH Network and its participants.</p>	<p>A new definition will be added to the Nacha Operating Rules to include an Egregious Violation. It is "a willful or reckless action by a Participating DFI, Originator, Third-Party Service Provider, or Third-Party Sender, and one that involves at least 500 Entries or involves multiple Entries in aggregate amount of at least \$500,000."</p> <p>Additionally, this Rule will allow the ACH Rules Enforcement Panel to determine if a violation is Egregious and if it should be classified as a Class 2 or Class 3 Rules Violation. Class 3 Rules Violations can be reported to ACH Operators and federal and state banking, consumer protection and other regulators and agencies by Nacha.</p> <p>The penalty for a Class 3 violation can be up to \$500,000 per occurrence and a requirement that the ODFI (Originating Depository Financial Institution serving as the Originator's bank) suspend the Originator or Third-Party Sender from the ACH Network.</p>	<p>None expected.</p>

Nacha Operating Rules Changes



Effective March 19, 2021

New Same Day ACH Processing Window

Current Rule	Upcoming Changes	Action Required
<p>Current Same Day ACH processing windows available at the Federal Reserve Bank are 7:30 a.m. PT / 9:30 a.m. CT / 10:30 a.m. ET (with settlement at 10:00 a.m. PT / 12:00 p.m. CT / 1:00 p.m. ET) and 11:45 a.m. PT / 1:45 p.m. CT / 2:45 p.m. ET (with settlement at 2:00 p.m. PT / 4:00 p.m. CT / 5:00 p.m. ET).</p> <p><i>NOTE: These are NOT the same ACH processing windows available to end users; these are the times available to banks and their processors.</i></p> <p>Same Day ACH processing windows available to Lead Bank clients: 4:45 a.m. PT / 6:45 a.m. CT / 7:45 a.m. ET and 9:40 a.m. PT / 11:40 a.m. CT / 12:40 p.m. ET.</p>	<p>A new Same Day ACH processing window will be introduced – 1:45 p.m. PT / 3:45 p.m. CT / 4:45 p.m. ET (with settlement at 3:00 p.m. PT / 5:00 p.m. CT / 6:00 p.m. ET).</p> <p><i>NOTE: These are NOT the same ACH processing windows available to end users; these are the times available to banks and their processors.</i></p> <p><i>The actual Same Day ACH processing window available to Lead Bank clients is still to be determined.</i></p>	<p>No immediate action is expected.</p>

Supplementing Fraud Detection Standards for WEB Debits

Current Rule	Upcoming Changes	Action Required
<p>Companies originating Internet-Initiated debit Entries (WEB Entries) must use a “commercially reasonable fraudulent transaction detection system” to screen the entries for fraud. The purpose of this screening is to minimize and prevent the opportunity for fraud to enter the ACH Network and to harm consumers. Commercially reasonable means a process or system that is generally available and used by other similarly sized organizations.</p>	<p>It will be explicitly required to perform account validation as part of the “commercially reasonable fraudulent transaction detection system.” Companies originating WEB debit Entries must validate the first use of the account number or any changes to the account number. Examples of verifying the account number may include sending prenotification entries, live entry test entries (sometimes referred to as “penny test entries”) or other methods available.</p>	<p>Companies originating WEB debit entries must ensure they are following the explicit requirement to validate the account number used in conjunction with the “commercially reasonable fraudulent transaction detection system.” <i>Failing to perform any review and validation is not considered commercially reasonable.</i></p>

Nacha Operating Rules Changes



Effective June 30, 2021 (Phase 1)

Effective June 30, 2022 (Phase 2)

Supplementing Data Security Requirements

Current Rule	Upcoming Changes	Action Required
<p>ACH Network participants are required to establish, implement and update security policies, procedures and systems related to the initiation, processing and storage of ACH entries. The policies, procedures and systems must protect the confidentiality and integrity of the information (routing and account numbers, names, social security numbers, PIN numbers, etc.); protect against anticipated threats or hazards to the integrity of the information; and protect against unauthorized use of information that could result in substantial harm to a person.</p>	<p>The ACH Data Security Requirements are being expanded to explicitly require large companies, Third-Party Service Providers and Third-Party Senders to protect the account numbers used in the initiation of ACH entries by making them unreadable when stored electronically. The rule aligns with existing PCI requirements that apply to card transactions.</p> <p>The rule does not apply to the storage of paper authorizations.</p> <p>The implementation will occur in two phases: Phase 1 applies to companies, Third-Party Service Providers and Third-Party Senders that originate 6 million or more ACH transactions in a calendar year. The compliance date is June 30, 2021.</p> <p>Phase 2 applies to companies, Third-Party Service Providers and Third-Party Senders that originate 2 million or more ACH transactions in a calendar year. The compliance date is June 30, 2022.</p>	<p>Companies that originate 2 million or more ACH transactions per calendar year, no matter how many banks or payment processors are used, should work to meet the requirements outlined in this change by the deadlines.</p>

Nacha Operating Rules Changes



Effective June 30, 2021

Limitation on Warranty Claims		
Current Rule	Upcoming Changes	Action Required
<p>The Nacha Rules are based on contract law between all participants. The warranties, liabilities and responsibilities of all parties are allocated by contracts or agreements executed by the parties. The Nacha Rules assign a warranty to the ODFI (the Originator's bank) which places the ultimate responsibility for ACH transactions on the ODFI. The ODFI warrants the transaction was authorized by the Receiver of the transaction. The ODFI passes this warranty by contract or agreement to the Originator of the transaction where it normally and ultimately belongs as the Originator has the relationship with the Receiver. This warranty has no explicit time limit within the Nacha Rules. A warranty claim can be made by another ACH Network participant, normally the Receiver's Bank (called the RDFI) and could be made months or years after the settlement of the ACH transaction. This means the Originator could suffer a financial loss months or years after the initial ACH transaction with the only recourse against the Receiver through arbitration or court claim.</p>	<p>The Nacha Rules are being amended to reduce the ODFI warranty to the following.</p> <ul style="list-style-type: none">• For an entry to a non-consumer or business account, the claim must be made up to one (1) year following the settlement date of the transaction. This timeframe is similar to one found within the UCC 4-406 (or state law) that applies to checks.• For an entry to a consumer account, the claim can be made for two (2) years following the settlement date of the transaction.	<p>For businesses originating ACH transactions, you may see a decline in warranty claims that would have exceeded the 1 year for businesses or 2 years for consumers timeframes thereby reducing your financial liability.</p> <p>For businesses receiving ACH transactions, be diligent about monitoring your bank account daily and immediately reporting to Lead Bank any unrecognized or unexpected ACH transactions so that the dispute process can start.</p>

Nacha Operating Rules Changes



Effective June 30, 2021

Reversals		
Current Rule	Upcoming Changes	Action Required
<p>The Nacha Rules do not explicitly address certain situations in which a reversal could NOT be initiated in an attempt to recover ACH entries, batches or files which were originated in error or in duplicate.</p>	<p>The Nacha Rules are being amended to explicitly state that a reversal is improper if it meets the following.</p> <ul style="list-style-type: none">• The reversal was originated because the Originator or Third-Party Sender failed to provide funding for the original ACH transaction.• The reversal was originated outside the timeframe permitted by the Nacha Rules. <p>When a reversal is created, the Company Name, ACH Company ID, Standard Entry Class (SEC) code and Amount fields must be identical to the original ACH transaction.</p> <p>The Receiving bank, also known as the RDFI, may return an improper reversal entry, after obtaining from the accountholder a Written Statement of Unauthorized Debit (WSUD). The return must be no later than 60 calendar days from the settlement of the reversing entry for a consumer accountholder or two banking days for a non-consumer accountholder.</p>	<p>Ensure that when a reversal is originated in an attempt to recover an ACH entry originated in error or in duplicate, it adheres to the Nacha Rules requirements. Failing to do so may result in the reversal being returned as unauthorized.</p> <p><i>NOTE: A reversal is an attempt to recover funds using the ACH Network but there is no guarantee the reversal will actually recover the funds. If the reversal is unsuccessful, the issue must be dealt with outside the ACH Network.</i></p>

Nacha Operating Rules Changes



Effective September 17, 2021

Meaningful Modernization – Standing Authorizations

Current Rule	Upcoming Changes	Action Required
<p>Currently the Nacha Rules identify two authorization scenarios: 1) single-entry authorizations which are one-time ACH authorizations for a single entry, and 2) recurring authorizations which authorize recurring ACH transactions at regular intervals for the same or similar amount. There is a challenge for those ACH transactions that may fall between these two scenarios.</p>	<p>A new definition will be added to the Nacha Rules – Standing Authorization which is an “advance authorization by a consumer of future debits at various intervals.” In this scenario the consumer will take action to initiate the ACH transaction. A Standing Authorization can be obtained from the consumer orally or in writing.</p> <p>Additionally, another definition will be added – Subsequent Entries which are “individual payments initiated based on a Standing Authorization.”</p> <p>There will be flexibility in the use of the Standard Entry Class (SEC) code for the Subsequent Entries. For example, if the consumer provides their authorization orally, the TEL SEC code may be used. If the consumer provides their authorization over the Internet, the WEB SEC code may be used.</p>	<p>Evaluate what methods of authorization are obtained from your customers and if there is an opportunity to use Standing Authorizations.</p>

Meaningful Modernization – Oral Authorizations

Current Rule	Upcoming Changes	Action Required
<p>Current Nacha Rules require any oral authorization to occur over a telephone call. With numerous enhancements to technology, an oral authorization may occur outside of a telephone call. For example, someone may use Siri or Alexa or Google Assistant to initiate an ACH payment. Also, services like FaceTime, Google Duo or Skype may be used to obtain authorization for an ACH payment. These new technologies and services may not be categorized as a telephone call and subject to the Telephone-Initiated (TEL) requirements.</p>	<p>The Nacha Rules are being amended to define a new authorization method – Oral Authorization – which will allow the use of the technologies and services in place today and future. An oral authorization will need to meet the risk and security requirements based on how it was obtained; if over the telephone, adherence to the TEL Rules is required, whereas if the oral authorization occurred over the Internet, adherence to the WEB Rules would apply.</p> <p>Additionally, Oral Authorization will incorporate the Standing Authorization requirements and rules.</p>	<p>Using Oral Authorizations for ACH origination is optional for business entities originating ACH transactions. If your company elects to use Oral Authorization, ensure that your authorization practices and language used meet all requirements of Oral Authorizations. Additionally, consider the impacts of digital storage needs of these types of authorizations.</p>

Nacha Operating Rules Changes



Effective September 17, 2021

Meaningful Modernization – Alternative to Proof of Authorization		
Current Rule	Upcoming Changes	Action Required
<p>Originators of ACH transactions are required to obtain proper authorization from each Receiver. The authorization can be requested by the Receiver’s bank, the RDFI, and the Originator and its bank, the ODFI, must provide the requested authorization within 10 banking days. There may be situations in which a Receiver claims an ACH transaction is not authorized and rather than provide the proof of authorization, the Originator is willing to accept the return of the ACH transaction as unauthorized.</p>	<p>The Alternative to Proof of Authorization will allow the Originator of the ACH transaction(s) and its ODFI to accept the return of the ACH transaction as unauthorized in place of locating the authorization and providing it. This is intended to reduce the administrative barrier of having to locate the authorization and provide it with the same result – the ACH transaction being returned as unauthorized.</p> <p><i>NOTE: The RDFI is still entitled to the authorization if it needs it for an investigation or other reason. If the RDFI insists on receiving the proof of authorization, the Originator and its ODFI are required to provide it within 10 banking days of the written request.</i></p>	<p>None expected.</p>

Meaningful Modernization – Written Statement of Unauthorized Debit		
Current Rule	Upcoming Changes	Action Required
<p>The Nacha Rules permit the Receiver of an ACH transaction to dispute it with their bank, called the RDFI, by signing a Written Statement of Unauthorized Debit (WSUD). This is a legal document that can be used in a court of law or arbitration, if necessary, and can be requested by the Originator’s bank, called the ODFI. Historically, the WSUD has been signed with paper and wet ink; however, with advancements in technology, many financial institutions are collecting the WSUD electronically.</p>	<p>The Nacha Rules are being amended to make explicitly clear that a WSUD can be signed using any commercially reasonable electronic signature tool / service / product or by oral means. The RDFI must be able to produce and provide the WSUD, regardless of how the signature was obtained, to the ODFI when written request is made.</p>	<p>If you as the Originator of an ACH transaction that was returned as unauthorized requests a WSUD, expect that the WSUD can be provided in a variety of formats, including oral recordings, electronically signed copies or paper and wet ink signatures.</p>

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