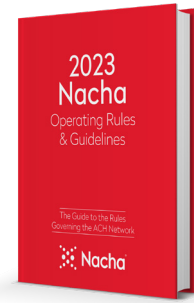
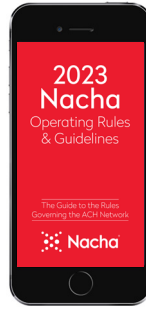
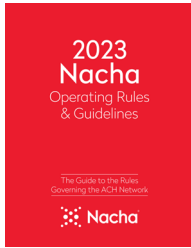

ACH QUICK REFERENCE GUIDE FOR CORPORATE USERS



Electronic Payments Core of Knowledge

OPTIONS TO VIEW OFFICIAL 2023 NACHA OPERATING RULES



2023 ACH Rules Online Resource

Member Price	\$65.00 each
Non-Member Price	\$100.00 each

ACH Rules Online is an electronic version of the printed book. The site allows for quick reference browsing with copy/printing options, powerful keyword/phrase search and customized bookmarking functionality. ODFIs will receive access codes via email to share forward with clients. Subscription access to the ACH Rules Online runs from December 31, 2022 through December 31, 2023. Access codes may only be used by one unique user and cannot be shared.

2023 ACH Rules via App

Member Price	\$65.00 each
Non-Member Price	\$100.00 each

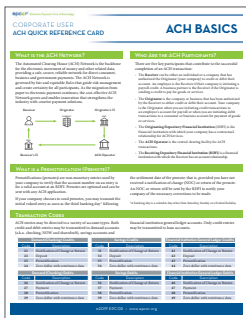
The ACH Rules via App provides read-only access with search functionality, and can be downloaded to two devices. This Adobe-based product requires a third-party app called Flux Player to allow the ACH Rules content to be downloaded and accessed only within the app. Access to the ACH Rules via App runs from December 31, 2022 through December 31, 2023. ODFIs will receive access codes via email to share forward with clients.

2023 ACH Rules Book and Rulebook Tabs

Member Price	\$65.00 each
Non-Member Price	\$100.00 each

This traditional, printed ACH Rules book comes with a handy set of EPCOR's Rulebook Tabs to allow users to easily navigate the rules. Orders placed through this pre-print offer will also include complimentary ACH Rules Online access.

All versions of the ACH Rules can be ordered in the EPCOR Online Store at www.epcor.org/store



CORPORATE ACH USER QUICK REFERENCE CARDS

This four-card series gives Originators fingertip access to critical information for the correct handling of ACH Returns, Dishonored Returns, Standard Entry Class (SEC) codes, Transaction codes and Notifications of Change (NOC) codes. This is an ideal tool to assist with Originator education and rule compliance, which is a responsibility of the ODFI. These colorful and durable desktop reference cards provide ACH basics, including prenotifications, for the Originator along with the explanations for Return Reason codes, NOC codes, SEC codes, transaction codes and solutions for handling ACH exception entries. These quick reference cards are a great way to provide Originators tools now that the ACH Rules - Corporate Edition has been retired. (2023)



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HOW TO USE THIS GUIDE

The purpose of the *ACH Quick Reference Guide for Corporate Users* is to help corporate Originators comply with the *Nacha Operating Rules*. This *Guide* is a summary of those tasks most important to Originating ACH debits and credits.

Throughout this *Guide* you will see the terms ODFI and RDFI. While those terms refer to the Financial Institutions sending and receiving ACH transactions, it is important for the Originator to know how the entire ACH process works. Even though the Originator may not be receiving ACH transactions, they should understand the actions an RDFI takes when receiving, returning and disputing forward ACH transactions.



This *Guide* is not meant to replace the *2023 Nacha Operating Rules*. This *Guide* is meant to serve as a resource to help corporate Originators understand their obligations outlined in the *2023 Nacha Operating Rules*.

This *Guide* is based on the *2023 Nacha Operating Rules, Guidelines* and applicable supplements, and is written for corporate users. The language in this *Guide* should not be considered legally binding. This *Guide* is not intended as a substitute for referencing and complying with the *2023 Nacha Operating Rules*.

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WHAT IS ACH?

What is the ACH Network?

The Automated Clearing House (ACH) Network is the backbone for the electronic movement of money and other related data, providing a safe, secure, reliable network for direct consumer, business and government payments. The ACH Network is governed by fair and equitable *Rules* that guide risk management and create certainty for all participants. As the migration from paper to electronic payment continues, the cost-effective ACH Network grows and enables innovation that strengthens the industry with creative payment solutions.

Who Are the ACH Participants?

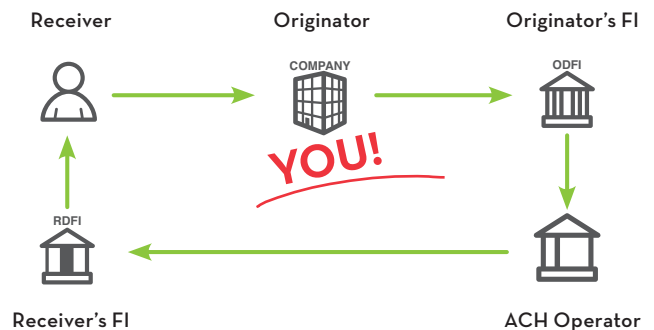
There are five key participants that contribute to the successful completion of an ACH transaction:

The Receiver can be either an individual or a company that has authorized the Originator (your company) to credit or debit their account. An employee is the Receiver if their company is initiating a payroll credit. A business partner is the Receiver if the Originator is sending a credit to pay for goods or services.

The Originating Depository Financial Institution (ODFI) is the financial institution with which your company has a contractual relationship for ACH Services. When you are the Originator, your financial institution is the ODFI.

The ACH Operator is the central clearing facility for ACH transactions.

The Receiving Depository Financial Institution (RDFI) is a financial institution with which the Receiver has an account relationship.



The Originator is the company or business that has been authorized by the Receiver to either credit or debit their account. Your company is the Originator when you are initiating credit transactions to an employee's account for payroll or when you are initiating debit transactions to a consumer or business account for payment of goods or services. Likewise, your company could be the Originator when you convert your lockbox checks to ACH, initiate a payment to another vendor to pay an invoice or accept a phone payment from a customer to pay a bill. Anytime your company initiates an ACH payment (credit or debit), you are the Originator.

Overview of ACH Origination

It is important to understand the official *Rules* mostly govern Financial Institutions. But, each financial institution is required to have a legally binding Origination Agreement with each of its corporate Originators, which also binds the Originator (**YOU**) to the *Rules*. So, for purposes of this publication, you can assume anywhere the *Rules* say 'ODFI' or 'Originator', you, the Originator, is also obligated to comply with the language in the *Rules*.

GENERAL RULES

Article 1 of the *ACH Rules* applies to all participants who transmit and/or receive ACH entries. This section is applicable to all ACH participants and is considered general rules to participating in the ACH Network.

Compliance with the Rules

Each financial institution agrees to comply with the *Rules* and warrants it is legally able to do so. Through the ACH Origination Agreement and financial institution disclosures Originators and Receivers also agree to comply with the *Rules*. (Section 1.2)

Each financial institution is relieved of its obligation to comply with the *Rules* if such action is inconsistent with U.S. legal requirements. This is referred to as “The Effect of Illegality.” For example, if an IAT credit is received and found to be a potential OFAC hit and the RDFI is unable to complete its investigation in time to post the credit entry timely, it will be excused from having to adhere to the funds availability *Rules*. (Subsection 1.2.1)

Electronic Record Creation and Retention

Records can be obtained and archived electronically if the electronic record accurately reflects the information contained in the original record AND the electronic record is capable of being reproduced accurately for later reference. (Subsection 1.4.3)

Electronic Signatures

Electronic signatures are permitted if they comply with the Electronic Signatures in Global and National Commerce Act, more commonly known as the E-Sign Act. (Subsection 1.4.4)

Data Security

Non-consumer Originators, ODFIs, RDFIs and Third-Party Service Providers must have, and update as appropriate, policies, procedures and systems with respect to the initiation, processing and storage of ACH entries.

All parties, including Originators, must be able to protect the confidentiality and integrity of protected information (ACH debit authorizations, routing numbers, account numbers, Social Security numbers, etc.) until its destruction. Originators should work to protect against anticipated threats to the security of the information (data breach) and unauthorized use of the information (fraud).



Has an information security/privacy policy been established for your business and your customers data? Here are some things to consider in your policy...

- Does it include the security of ACH data (routing number and account number)?
- How is ACH data collected? Is the collection of ACH data done through a secure format?
- Where is the ACH information stored? How is it protected?

How is ACH data moved between employees? How is ACH data transmitted to the ODFI? How is the connection used to move ACH data secured?

How and when is the ACH data destroyed?

TIPS FOR PROTECTING ACH DATA:

- Use effective passwords
- Don't click on unfamiliar links
- Block potential intruders
- Restrict Access
- Educate Staff

Visit the Better Business Bureau for more tips on Data Privacy and Cybersecurity.

ACH RULES – ARTICLE 1

Each Non-Consumer, TPSP and TPS Originator whose ACH origination or transmission volume exceeds 2 million entries annually must, by June 30 of the following year, protect account numbers used in the initiation of entries by rendering them unreadable when stored electronically.

Policies, procedures and systems must include controls that comply with applicable regulatory guidelines. (Section 1.6)

Secure Transmission

Banking information (routing numbers, account numbers, Social Security numbers, PIN numbers) contained in an ACH entry that is transmitted over an Unsecured Electronic Network (UEN – the Internet) must be either encrypted or sent via a secure session that provides commercially reasonable security that complies with applicable regulatory requirements. (Section 1.7)

Choice of Law

The *Rules* have adopted the State of New York's version of Uniform Commercial Code Article 4A. This may be altered through agreement (e.g., ODFI/Originator Agreement, Deposit Agreement, etc.). (Section 1.8)

Fees

An ODFI is required to pay Nacha Unauthorized Entry Fees, Same Day Entry Fees and Network Administration Fees. These fees may be passed along to the corporate Originator in a variety of methods, such as monthly fees. Specific fees charged by Nacha are published annually in the *Rules*. (Section 1.11, Section 1.12, Section 1.13)

Compensation

The settlement of claims for compensation may be governed by Compensation Procedures as described in Appendix 7 of the *Rules*. (Subsection 1.2.5)

Arbitration

The settlement of disputes between parties in the ACH Network may be governed by Arbitration Procedures as described in Appendix 8 of the *Rules*. (Subsection 1.2.6)



DID YOU KNOW?

A commercially reasonable system, technology, practice or procedure is one that is a commonly accepted commercial practice among Originators conducting similar types of transactions.

RIGHTS AND RESPONSIBILITIES OF ODFIs, ORIGINATORS AND THIRD-PARTY SENDERS

Article 2 applies to all ODFIs, Originators and Third-Party Senders who transmit ACH entries. These *Rules* set out requirements for ODFI and the corporate Originators and Third-Party Senders for which they are originating ACH transactions.

An Originator is responsible for all entries originated through the ODFI. (Section 2.1)

An Originator must not disclose the Receiver's account number or routing number to any third party for any direct or indirect use in initiating separate ACH debit entries. (Subsection 2.3.4)

All authorizations, regardless of Standard Entry Class codes, must be readily identifiable as a valid authorization and terms of the authorization must be clear and readily understandable. (Section 2.3)

Warranties and Liabilities

Authorization

Proper authorization must be in place between the Originator and Receiver. Authorization cannot have been revoked or terminated prior to transmitting the entry. (Subsection 2.4.1.1)

Correct Account Number

Each entry must contain the correct account number of the Receiver and all other necessary information. (Subsection 2.4.1.4)

Credits and Debits

Each credit entry must be timely. (Subsection 2.4.1.5)

Each debit entry must be for an amount that is due and an amount authorized by the Receiver. The only debit entries that can be sent without proper authorization are those sent to correct an erroneous credit entry. (Subsection 2.4.1.6)

Warranties Do Not Apply to Goods and Services

ACH warranties do not apply to the goods or services to which the entry relates. A Receiver will need to resolve issues related to the non-receipt or dissatisfaction of goods or services directly with the Originator. (Subsection 2.4.3)

Breach of Warranty

If the Originator breaches any of the warranties outlined in the *Rules*, it shall indemnify every ACH participant from and against all claims, demands, losses, liabilities or expenses associated with the breach. (Subsection 2.4.5.1)

Origination Agreement

An ODFI and corporate Originator must enter into an Origination Agreement before transmitting any ACH credits or debits. (Subsection 2.2.2.1)

Third-Party Sender Agreement

An ODFI must enter into an Origination Agreement with Third-Party Sender before transmitting any ACH Credits or Debits.

In addition, this Third-Party Sender agreement should have the inclusion of Nested Third-Party Senders and the right to audit the Origination Agreement and ACH Rules compliance by Third-Party Senders, any of their Nested Third-Party Senders, and respective Originators. (Subsection 2.2.2.2)

The Origination Agreement must provide the following:

ACH Rules and U.S. Laws

Originator agrees to be bound to the *ACH Rules* and U.S. laws.

Standard Entry Class (SEC) Codes

Agreement must include a clause that defines the SEC code(s) to be originated.



Some common topics ODFIs may request if auditing an Originator are:

- Proper authorizations based on Standard Entry Class Code originated
- Proper Transaction Codes based on whether account is checking or savings
- Verbiage on authorization to revoke the authorization
- Retention of authorizations
- Proof of authorization requests honored
- Proper prenotifications (if applicable)
- Handling returns
- Return rates
- Handling customer disputes for Stop Payments and Unauthorized Entry
- Changing information noted on Notification of Change
- Proper reinitiation of entries
- Properly sending reversals
- Proper destruction of source documents (i.e. a check converted to an ACH transaction)

ACH RULES – ARTICLE 2

Termination

Terms to terminate or suspend the agreement or any Originator.

Audit

A provision that allows the ODFI to audit the Originator for compliance with the Agreement and ACH Rules.

ODFI Risk Management

ODFI Due Diligence

ODFIs must perform due diligence on each Originator to form a reasonable belief that the Originator can comply with the Rules. (Subsection 2.2.3)

Additionally, the ODFI must:

1. Assess the nature of the Originator's ACH activity and the risks it presents,



ACH ORIGATION IS A PRIVILEGE, NOT A RIGHT!
Risk management is a vital part to ensuring quality of the ACH network remains viable. Since ACH transactions do not settle in the ACH Network immediately, the ODFI must evaluate the amount of credit risk it is willing to take on for each Originator. Setting monthly, daily and even transaction dollar limits for Origination is a common practice.

2. Establish exposure limits, and
3. Establish procedures to
 - a. monitor origination and return activity across multiple settlement dates
 - b. enforce restrictions on SEC code(s)
 - c. enforce exposure limits



TAKE NOTE:
While the Origination Agreement is usually provided by the ODFI, the Originator needs to ensure they are familiar and comfortable with the terms and conditions in the legally binding contract between the Originator and the ODFI.

Suspension/Termination of Originators

If any Originator breaches the Rules or causes the ODFI to breach the Rules, then the ODFI may terminate/suspend the Origination Agreement.

ODFIs must provide, at a minimum, a 10-banking day notice to Originator or may provide shorter notice if documented in the Origination Agreement. (Subsection 2.2.3.1)

Authorizations

Originators must obtain authorization from the Receiver prior to initiating an ACH entry (credit or debit). (Subsection 2.3.1)

Authorizations for debit entries to consumer accounts must include (Subsection 2.3.2.2):

1. Language stating whether the authorization is for a single entry, multiple entries or recurring authorization.
2. The amount of the entry being authorized.
3. Timing of the debits being authorized.
4. Receiver's name (or identity)
5. Account being debited
6. Date of the authorization
7. Language instructing the Receiver how to revoke the authorization.

Authorization for a credit entry to a consumer account is not required to be in writing. The authorization may be done orally or by other non-written means, such as a voided check. (Subsection 2.3.2.1)



TAKE NOTE:
Section 2.5 - Provisions of Specific Types of Entries of the Rules outlines specific requirements for each Standard Entry Class code used to initiate an ACH entry, including authorization types.

Authorization for a debit entry to a consumer account must be signed or similarly authenticated. Originators must provide the consumer with a copy of the authorization. With respect to a standing authorization, the minimum standards for a consumer debit authorization may be met through a combination of the standing authorization and the Receiver's affirmative action to initiate a subsequent entry. (Subsection 2.3.2.2)

ACH RULES – ARTICLE 2

A standing authorization is an advance authorization by a Receiver of future entries to the Receiver’s consumer account that requires further affirmative action by the Receiver to initiate future entries.

Originators must provide written notice to a consumer at least 10 calendar days prior to a scheduled payment if the amount of a recurring debit changes. A consumer may decline to receive notice if the debit amount falls within a specified range. (Subsection 2.3.2.8)

Originators must provide written notice to a consumer at least 7 calendar days prior to a scheduled payment if the date of a recurring debit changes. Variations in debiting dates due to a weekend or holiday are not considered to be changes in the scheduled date. (Subsection 2.3.2.8)

Authorization for business-to-business transactions (CCD/CTX) are required to be through agreement with the Receiver. (Subsection 2.3.3.1)

Provisions for each SEC Code should also be observed. (Section 2.5)

Standard Entry Class (SEC) Codes

ACH APPLICATION	SEC CODE	APPLICATION USE	DEBIT/ CREDIT	CONSUMER/ CORPORATE	AUTHORIZATION REQUIREMENT
Accounts Receivable Entries	ARC	Convert checks received via the U.S. mail, drop box or manned bill payment location and collect the funds via the ACH Network. Check must be in an amount of \$25,000 or less.	Debit	Consumer/ Corporate	Notification
Back Office Conversion	BOC	Convert checks received at the point-of-sale or manned bill payment location to ACH transactions in the back office. Check must be in an amount of \$25,000 or less.	Debit	Consumer/ Corporate	Notification
Corporate Credit or Debit	CCD	Make regular payments or distribute or consolidate funds between corporate entities.	Credit or Debit	Corporate	Agreement
Corporate Trade Exchange	CTX	Transfer funds within a trading partner relationship, including payment-related information.	Credit or Debit	Corporate	Agreement
International ACH Transactions	IAT	Entry that involves a financial agency’s office that is not located in the territorial jurisdiction of the U.S.	Credit or Debit	Consumer/ Corporate	For Consumer credit entries: Oral or non-written means; For Consumer debit entries: Written; For Corporate entries: Agreement
Point-of-Sale	POS	ACH entry typically initiated by the use of a merchant-issued plastic card to pay an obligation at the point-of-sale.	Credit or Debit	Consumer	Written
Point-of-Purchase	POP	Convert checks received at the point-of-sale or manned bill payment location to ACH transactions upon receipt. Check must be in an amount of \$25,000 or less.	Debit	Consumer/ Corporate	Notification and Written
Direct Deposit	PPD	Payroll, expense reimbursement, etc.	Credit	Consumer	Oral or non-written means
Direct Payment	PPD	Preauthorized bill payment.	Debit	Consumer	Written
Re-presented Check Entries	RCK	Collect funds via the ACH Network for consumer checks returned insufficient or uncollected funds. Check must be in an amount less than \$2,500.	Debit	Consumer	Notification
Telephone-Initiated Entries	TEL	ACH entry initiated pursuant to an oral authorization obtained via the telephone or standing authorization.	Debit	Consumer	Recording or Standing Authorization
Internet-Initiated/ Mobile Entries	WEB	ACH entry initiated pursuant to an authorization obtained via the Internet or mobile device (except when a verbal authorization is used on the mobile device).	Credit or Debit	Consumer	Similarly Authenticated

Return Fee Entries

A Return Fee entry may be originated for

1. an ACH debit to a consumer account,
2. an ARC, BOC or POP to a non-consumer account, or
3. a check that was returned for insufficient or uncollected funds. (Subsection 2.15.1)

Originators may provide notice to initiate a Return Fee entry at the time the ACH debit is authorized, or the check is accepted. (Subsection 2.15.2)

If authorized by notice, Originators must use PPD debit with a Company Entry Description of 'RETURN FEE'. If authorized in another manner, Originators must use appropriate SEC code. (Subsection 2.15.3)

Originators may reinstate a Return Fee entry but may not originate a Return Fee entry for a Returned Fee entry. A Return Fee entry must be initiated within 45 days of the Settlement Date of the return of the underlying ACH debit or check item. (Subsection 2.15.4)

Key Issues to Address in ODFI/Originator Agreement (not all inclusive list)

1. Types of entries
2. Date and time entries must be furnished to ODFI
3. Exposure limits
4. Data security
5. Originators obligation to obtain, retain and provide copies of authorizations
6. Reversal deadline
7. ODFI/Originator responsibilities
8. Any fees/charges by the ODFI
9. Procedure for terminating the agreement
10. Originator agreement to be bound by the Nacha Rules

Authorization Retention

Consumer Transactions

Originators must retain the original or copy of an authorization for 2 years from the termination or revocation of the authorization. For example, if an Originator is transmitting recurring debit entries, the Originator must keep copies of those authorizations until 2 years after the person who authorized the transaction cancels the original authorization. If the Receiver has their account debited for the service for 10 years then cancels the service, the Originator must keep a copy of the authorization for a total of 12 years (10 years it used the authorization plus 2 years since the Receiver canceled the authorization). The Originator is required to provide copy of the authorization to RDFI (through the ODFI) within 10 banking days of the RDFI's written request. Originators are required to provide the authorization to the ODFI. The timeframe and manner in which the Originator should provide the authorization to the ODFI is generally addressed in Origination Agreement.

With respect to a standing authorization, an Originator must retain the original or a copy of each standing authorization for two years following the termination or revocation of the authorization, as well as proof that the Receiver affirmatively initiated each payment in accordance with the terms of the standing authorization for two years following the Settlement Date of the entry. (Subsection 2.3.2.7)

Non-Consumer Transactions

The Originator is required to provide either: (1) a copy of authorization or (2) Originator's name, contact name and phone number or email address to RDFI (through the ODFI) within 10 banking days of the RDFI's written request.

Where the ODFI has accepted, or agreed to accept, the return entry, and the RDFI subsequently still makes a written request for evidence of authorization of the entry, the ODFI must provide to the RDFI either an accurate record evidencing the Receiver's authorization or the Originator's contact information within 10 banking days of the RDFI's subsequent written request.

An ODFI may also confirm in writing their agreement to accept the return of the entry within 10 banking days of providing the confirmation to the RDFI, without regard to any other time limits on returns under the Rules. (Subsection 2.3.3.3)

RIGHTS AND RESPONSIBILITIES OF RDFIs

Article 3 applies to all RDFIs who receive ACH entries. While Article 3 of the *Rules* applies directly to the Receiver's financial institution, it is important for the Originator to understand what is required in all steps of the ACH transaction, including receipt. While the intent is for all ACH transactions to be received by the RDFI, and posted to the account of the Receiver, that is not always the case. Understanding what the RDFI's can and cannot do helps the Originator understand the choices the RDFI can make when receiving an ACH transaction.

Acceptance by RDFI

RDFIs must accept all credit, debit and non-monetary entries. RDFIs cannot pick and choose entries to accept. RDFIs warrant that they have the power to receive entries as provided. RDFIs indemnify all ACH Participants against losses resulting from breach of warranties. (Subsection 3.1.1/3.2.1/3.2.2)

RDFIs may rely solely on the account number for purposes of posting. RDFIs do not have to ensure name and account number match. While RDFIs may post based on account number, if they choose to match the name with the number on the account they may also return the transaction, or send a notification of change, in the case of a mismatch. (Subsection 3.1.2)

Rules are to be applied by RDFIs based on the Standard Entry Class (SEC) code and not on the type of account the entry is posting to. For example, if a consumer SEC code posts to a corporate account, the *Rules*, such as return time frames, of the consumer SEC code apply. (Subsection 3.1.3)

RDFIs must provide minimum description information to each consumer account holder concerning ACH debit and credit entries to his/her account. Required fields must be included in the originated ACH entry, so the RDFI can post them on the consumer account. See *Appendix 3* for Data Element Requirements. (Subsection 3.1.5.1)

If a non-consumer Receiver requests the RDFI to provide payment-related information contained in CCD, CTX, CIE and IAT entries, the RDFI must do so within 2 banking days of the Settlement Date. (Subsection 3.1.5.3)

For health care CCD payments to a non-consumer account, an RDFI must provide payment-related information within 2 banking days of the Settlement Date. RDFIs may decide to provide the information automatically, or they may require the Receiver to request the information. Additionally, the RDFI can make an option for the Receiver to access the payment-related information via a secure, electronic means that provides a level of security that complies with applicable regulatory requirements available to the Receiver. (Subsection 3.1.5.3)

RDFIs must provide Receivers notices regarding CCD/CTX credit entries. These are typically addressed in non-consumer account agreements. The following notices must be provided: (Subsection 3.1.6)

- Governed by State of New York unless RDFI and Receiver have agreed to another state's UCC 4A

- Credit to Receiver is provisional until final settlement
- RDFI has the right to a refund from the Receiver if final settlement is not received
- RDFI does not have to provide notice to the Receiver of receipt of the entry unless otherwise agreed to

RDFIs may rely on the Settlement Date of an entry for purposes of fulfilling its obligations under the *Rules* (i.e., posting, funds availability, exception processing). (Subsection 3.1.9)

Funds Availability - RDFI

Credits

If the RDFI suspects any credit entry is fraudulent, they may invoke Regulation CC Funds Availability (next day), but the RDFI must also promptly notify the ODFI. (Subsection 3.3.1)

Credit entries that are not Same Day entries must be available for withdrawal no later than Settlement Date. (Subsection 3.3.1.1)



TAKE NOTE:

Some RDFIs chose to post ACH credits when they get the ACH file with instruction to pay, which would be prior to the Settlement Date. RDFIs are required to post by the Settlement Date, but are not prohibited from posting prior to the Settlement Date.

Non-Same Day credit entries made available for pick up by the RDFI by 5 p.m. local time on the banking day prior to the Settlement Date must be available for withdrawal no later than 9 a.m. RDFI's local time on the Settlement Date. Credits that are not Same Day entries that are made available for pick up after 5 pm local time on the banking day prior to the Settlement Date must be made available for withdrawal sometime on the Settlement Date. (Subsection 3.3.1.1)

Funds associated with Same Day credit entries processed in the first Same Day processing window (sent to ACH Operator by 10:30 am ET and received by RDFI by Noon ET) must be available to the Receiver for withdrawal no later than 1:30 p.m. RDFI's local time on the Settlement Date. (Subsection 3.3.1.2)

Funds associated with Same Day credit entries processed in the second Same Day processing window (sent to ACH Operator by 2:45 pm ET and received by RDFI by 4 pm ET) must be available to the Receiver for withdrawal no later than 5 p.m. RDFI's local time on the Settlement Date. (Subsection 3.3.1.2)

Funds associated with Same Day credit entries processed in the third Same Day processing window (sent to ACH operator by ACH files to be submitted until 4:45 p.m. ET and received by RDFI by 5:30 pm ET) must be made available no later than the end of its processing day. (Subsection 3.3.1.2)

RDFIs in the Atlantic Time Zone may use Eastern Time to satisfy these requirements. (Subsection 3.3.1.2)

RDFIs east of Atlantic Time Zone and West of International Date Line must make funds available for withdrawal no later than 9 a.m. RDFI's local time on the banking day following the Settlement Date, regardless of which Same Day processing window the credit was received. (Subsection 3.3.1.2)

Subsection 3.3.1.3 Non-Consumer Receiver's Records Must Reflect Payments Received from Originator

A Non-Consumer Receiver of a credit Entry must update its records to reflect the Originator's payment as having been received as of a date that is no later than the Settlement Date. The Non-Consumer Receiver has a reasonable period of time after the RDFI posts the Entry to the Receiver's account to update its records or to instruct the RDFI to return the Entry. For purposes of this subsection, a Receiver is considered to act within a reasonable period of time if it updates its records or instructs the RDFI to return the Entry within the time it usually completes these processes. A Receiver that instructs the RDFI to return the Entry is not considered to have accepted the Entry.

Subsection 3.3.1.4 Credit Entries Subject to Article 4A Are Provisional

For a credit Entry subject to Article 4A, credit given to a Receiver by an RDFI as provided in this Subsection 3.3.1 (General Rules for Availability of Credit Entries to Receivers) is provisional until the RDFI has received final settlement through a Federal Reserve Bank or the amount of the Entry. This Subsection 3.3.1.4 applies only if the Receiver has agreed to be bound by the Rules contained in this Subsection 3.3.1.4.

Debits

RDFIs must not debit the Receiver's account prior to the Settlement Date, even if the Effective Entry Date is different from the Settlement Date. (Subsection 3.3.2)

PRENOTES, RETURNS, NOTIFICATIONS OF CHANGE, REVERSALS AND RECLAMATIONS

Since the *Rules* are organized by participant, sometimes *Rules* for certain processes are referenced in multiple Articles. The following processes are common in the ACH Network. These processes include all parties in the ACH transaction. The ODFI portion of the process can be found in Article 2 of the *Rules* and the RDFI portion of the process can be found in Article 3 of the *Rules*.

Prenotifications (Prenotes)

Originators sending Prenotes to verify account numbers is optional. (Subsection 2.6.1)

Live entries may be sent as soon as the third banking day following the Settlement Date of the Prenote, provided the ODFI has not received a return or Notification of Change (NOC) related to the Prenote. (Subsection 2.6.2)

RDFIs must verify that the account number contained in a Prenote is valid. If the account number is invalid, or otherwise erroneous or unprocessable, then the RDFI must either return the Prenote with a valid Return Reason Code or send an NOC. The RDFI is not responsible for verifying the ownership of the account. (Section 3.5)

Micro-Entries

An Originator may originate one or more Micro-Entries to a Receiver's account prior to initiating future entries for account validation purposes. Unlike the \$0.00 Prenote, Micro-Entries are greater than \$0.00 but less than \$1.00 and can be seen on a Customer Statement for a Receiver to report to the Originator of the unique amounts.

Micro-Entries must be less than \$1.00, must be transmitted for settlement at the same time, and cannot result in a Net Debit to an account (Credits & Debits should be equal in amount, or Credits > Debits). (Subsection 2.7.1 & 2.7.3)

They should have "ACCTVERIFY" as the Company Entry Description of the Batch Header Record. Meanwhile, the Company Name should reflect the same Originator that will be identified for future entries and readily recognizable to the Receiver (Subsection 2.7.2)

Returns

RDFIs may return an entry for a valid reason. A complete table of all Return Reason Codes can be found in Appendix 4 of the *Rules*. (Subsection 3.8)

RDFIs may not return an entry simply because the entry is a credit, debit or non-monetary entry or based solely on the SEC code. For example, an RDFI cannot return an RCK entry simply because the SEC Code is RCK. (Subsection 3.8.1.1)

Return Time Frames

Returns with valid Return Reason codes must be transmitted so that they are 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 (a.k.a. "24-hour" rule). (Section 3.8)

RDFIs must return credit entries that cannot be posted to a Receiver's account so that they are 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 (a.k.a. "24-hour" rule). (Subsection 3.8.4)

If the SEC code is RCK, RDFIs must transmit a return to its ACH Operator by midnight of the of the second banking day following the banking day of the RDFI's receipt of the RCK. (NOTE: Most RDFIs send RCK entries in the return files with all other SEC codes. So, while the RCK return timeframe is different than other SEC codes, most SEC codes returns are handled together.) (Subsection 3.8.3.3)

If the SEC code is XCK, RDFIs must transmit a return so that it is 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. (Subsection 3.8.3.4)

ODFIs must accept return entries that comply with the *Rules* and established timeframes. ODFIs should be passing the return entries to the Originator in a timely manner. This is typically done through the online banking system. (Subsection 2.13.1)



TAKE NOTE:

There are only 2 instances when an RDFI can return an entry because it chooses not to accept the entry:

- Destroyed Check Entries (XCK) can be returned R33 simply because the RDFI does not want to accept XCK Entries. (Subsection 3.8.2)
- Entries destined to non-transaction accounts (typically savings accounts) can be returned by the RDFI as R20 if the entry is destined to an account and the account has reached the limit of electronic transactions for the month, per Regulation D. (Subsection 3.8.2)

ACH PROCESSES

Most Common Return Reason Codes

REASON FOR RETURN	RETURN CODE	SEC CODE	RETURN TIMEFRAME	ACTION BY ORIGINATOR
Insufficient Funds —Available balance not sufficient to cover amount of debit entry.	R01	ALL	2 Banking Days	May initiate a new ACH entry; must remain within reinitiation limits outlined in Article 2 of the <i>ACH Rules</i> and be reinitiated within 180 days of the Settlement Date of the original entry.
Account Closed —Previously active account has been closed.	R02	ALL	2 Banking Days	Stop initiation of entries. Contact customer to obtain authorization for another account.
No Account —Account number structure is valid, but doesn't match individual or open account.	R03	ALL	2 Banking Days	Stop initiation of entries. Customer should be contacted for correct account information.
Invalid Account —Account number structure not valid; edit of check digit or number failed.	R04	ALL	2 Banking Days	Stop initiation of entries until account number/structure is corrected.
Uncollected Funds —Sufficient ledger balance exists, but value of uncollected items brings available balance below amount of debit entry.	R09	ALL	2 Banking Days	May initiate a new ACH entry; must remain within limits for reinitiating entries outlined in Article 2 of the <i>ACH Rules</i> and be reinitiated within 180 days of the Settlement Date of the original entry.
Account Frozen/Entry Returned Per OFAC Instruction —Access to the account is restricted due to action by RDFI or by legal action.	R16	ALL	2 Banking Days	Stop initiation of entries. Terms of authorization may offer recourse outside the ACH Network. OFAC may have instructed the payment be returned.
File Edit Record Criteria/Entry with Invalid Account Number Initiated Under Questionable Circumstances —Fields edited by the RDFI cannot be processed or RDFI suspects payment may be fraudulent.	R17	ALL	2 Banking Days	Identify and correct errors prior to initiation of further entries. Errors are identified in the Addenda Information field of the Addenda Record. If this field contains 'QUESTIONABLE,' investigate validity of transaction.
Non-Transaction Account —RDFI policies or regulations restrict activity to account indicated.	R20	ALL	2 Banking Days	Stop initiation of entries. Contact customer for new account information.
Duplicate Entry —Entry is a duplication. The trace number, date, dollar amount, etc. match another entry.	R24	ALL	2 Banking Days	If entry is a duplication, accept the return. If the entry has already been reversed, your company should work with your ODFI to contact the RDFI to determine a solution.

This list does not include all Return Reason Codes that can be used in the ACH Network. Please refer to Appendix 4 for an all-inclusive list of Return Reason Codes.

Reinitiating Entries

A returned entry may be reinitiated if:

- The entry has been returned as Insufficient Funds (NSF) or Uncollected Funds (UCF)
- The entry has been returned for stop payment and the Receiver has authorized the reinitiation, or
- The Originator or ODFI have taken corrective action to remedy the reason for return. (e.g., corrected the invalid account number). (Subsection 2.13.4.1)

A total of 3 ACH presentments is permitted: The original ACH entry + 2 reinitiated ACH entries. (Subsection 2.13.4.1)

If the returned entry is an RCK, it may be reinitiated if:

- The RCK entry was returned as NSF/UCF and
- Has not been presented more than 1 time through the check collection system and no more than 1 time as an RCK. (Subsection 2.13.4.1)

For RCK entries, a total of 3 presentments is permitted. But, since the RCK started as a paper check or check image, the total amount of presentments is: 2 times as a check + 1 time as an RCK or 1 time as a check + 2 times as an RCK. (Subsection 2.13.4.1)

Originators must reinitiate eligible entries within 180 days after the Settlement Date of the original entry. (Subsection 2.13.4.1)

A debit entry should not to be treated as a reinitiated entry when the debit is one in a series of recurring entries and is not contingent upon whether an earlier debit has been returned. For example, a monthly insurance premium scheduled in May would be a new entry even though the April payment was returned. (Subsection 2.13.4.1)

A debit entry also should not be treated as a reinitiated entry when the Originator obtains a new authorization for an entry prior to transmitting the debit. (Subsection 2.13.4.1)

If a debit entry is returned because of an incorrect account number (R03 or R04), and the Originator initiates a correcting debit with

the accurate account information, the correcting debit should not be considered a reinitiated entry. (Subsection 2.13.4.1)

‘RETRY PYMT’ must be specified within the Company Entry Description field of the Company/Batch Header Record for all reinitiated entries. Contents of Company Name, Company Identification and Amount fields must be identical to the contents of the original entry. (Subsection 2.13.4.2)

Improper reinitiation practices are defined as:

- Initiating an entry for an amount greater or less than the original entry which was returned; (Subsection 2.13.4.3)
- Initiating an entry that was returned unauthorized prior to obtaining a new authorization; or (Subsection 2.13.4.3)
- Initiating an entry that Nacha reasonably believes represents an attempted evasion of the reinitiation rules (e.g., changing the Company ID or Company Name from the original entry). (Subsection 2.13.4.3)

Stop Payments

Stop Payments on Consumer Accounts

All stop payment requests may be provided verbally or in writing. (Subsection 3.7.1.2)

An RDFI may require written confirmation of a “verbal request” be made within 14 days of the verbal stop payment order. If the RDFI requires a written stop payment order by notifying the consumer when the stop payment is placed, and the written stop payment order is not received, then the verbal stop payment order ceases to be binding after 14 days. (Subsection 3.7.1.3)

Consumer Stop Payment Timeframe

Whichever of the following happens first will determine the duration of a consumer stop payment order:

- The consumer withdraws the request, or

- The debit entry/entries have been returned as R08. (Subsection 3.7.1.4)

Stop Recurring Payments

For recurring payments, RDFIs must honor stop payments received by consumers verbally or in writing at least 3 banking days before the scheduled debit date. RDFIs may, at its discretion, honor a stop payment request if provided within 3 banking days of scheduled debit date. (Subsection 3.7.1.1)

Stop Single Payments

For single entry payments, consumers must give an RDFI a reasonable opportunity to act upon the request prior to posting the payment. (Subsection 3.7.1.2)

Stop All Payments

For an order to stop all payments, RDFIs may require written confirmation of the Receiver’s revocation with the Originator. If written confirmation of the Receiver’s revocation with the Originator is not received within 14 days, then stop payment order ceases to be binding. (Subsection 3.7.1.3)

Stop Payments on Non-Consumer Accounts

Business account holders may request an RDFI to stop a payment, verbally or in writing, at such time and in such manner as to allow the RDFI an opportunity to act upon the request. (Subsection 3.7.2)

The RDFI is obligated to comply with a verbal request for 14 calendar days unless written confirmation is received within that 14 days. (Subsection 3.7.2)

Non-Consumer Stop Payment Timeframe

A written stop payment order will remain in effect until (1) the account holder withdraws the request, (2) debit entry has been returned as R08, or (3) six months, whichever occurs first. The account holder may renew the stop payment order in writing.

An RDFI may extend the effective period of a stop payment order beyond the minimum period. (Subsection 3.7.2.1)

Stop Payment Returns

REASON FOR RETURN	RETURN CODE	SEC CODE	RETURN TIMEFRAME	ACTION BY ORIGINATOR
Payment Stopped —The customer has requested the stop payment of a specific ACH debit entry.	R08	ALL	2 Banking Days	Contact the customer to identify the reason for the stop payment and obtain authorization before reinitiating the entry.
Stop Payment of Source Document —A Stop Payment has been placed on the source document to which the ARC or BOC entry relates.	R38	ARC, BOC	60 Calendar Days	Contact the customer to identify the reason for stop payment and obtain authorization from the customer before reinitiating the entry.
Stop Payment on Item —A Stop Payment has been placed on the item to which the RCK entry relates.	R52	RCK	60 Calendar Days	Contact the customer to identify the reason for stop payment before reinitiating the entry.

ACH PROCESSES

Unauthorized Entries

A debit entry can be returned as unauthorized if:

- Authorization requirements not met, (Subsection 3.12.1)
- A debit was initiated in an amount different than agreed upon (Subsection 3.12.2)
- A debit was initiated for settlement earlier than agreed upon (Subsection 3.12.2)
- A debit was authorized by a Receiver but the corresponding payment was not applied to the Receiver's account with the Originator (incomplete transaction). (Subsection 3.12.2)

If the entry is an ARC, BOC, POP or RCK and the source document used to obtain authorization was improper, or already presented for payment, the debit can be returned as unauthorized. (Subsection 3.12.2)

Written Statement of Unauthorized Debit

RDFIs must accept a Written Statement of Unauthorized Debit (WSUD) pertaining to an unauthorized or improper consumer

debit. The WSUD must be signed or similarly authenticated by the Receiver, contain the minimum information outlined in the *Rules*, and be dated on or after the Settlement Date of the entry being disputed. More than one unauthorized debit may be documented on a WSUD as long as the entries are from the same Originator and WSUD contains the minimum information. (Subsection 3.12.4)

RDFIs may transmit an extended return entry for any debit entry for which a WSUD was completed as long as the RDFI did not make any errors in debiting the Receiver and the extended return entry is transmitted within 60 days of the Settlement Date of the original entry. (Subsection 3.13.1)

RDFIs must retain the original or a copy of a WSUD for a minimum of 1 year from the Settlement Date of the extended return entry. (Subsection 3.12.5)

RDFIs must provide a copy of WSUD within 10 banking days of the ODFI/Originator's written request, as long as the ODFI/Originator's request is received within 1 year of the Settlement Date of the extended return entry. (Subsection 3.12.6)



TAKE NOTE:

If a consumer completes a Written Statement of Unauthorized Debit, the RDFI will return the debit entry as Unauthorized. If the Originator can prove that there is, in fact, valid authorization to debit the account, they should pursue the issue outside of the ACH Network. This could be requesting a copy of the WSUD from the RDFI and seeking legal advice on how to handle the collection of authorized funds from the consumer.



HELPFUL TIPS IN USING THE RULES

Interpreting the *Rules* can be tricky, but these helpful tips can assist you in taking out the guess work:

- Look for key words such as May, Can, Never, Always, Must, If, Shall and Should.
- Timeframes are described as 1) Banking Days, which is any day the Federal Reserve Bank is open for business, or 2) Calendar Days, which represent the days of the week. If "banking" or "calendar" days is not referenced in the *Rules*, you can assume "calendar" days apply.
- Article 8 of the *Rules* serves as the official 'glossary' for the *Nacha Operating Rules*. Refer to Article 8 if you are not sure the specific meaning of a term.

WRITTEN STATEMENT OF UNAUTHORIZED DEBIT BASED ACH RETURNS

Unauthorized Entry Return Reason Codes

REASON FOR RETURN	RETURN CODE	SEC CODE	RETURN TIMEFRAME	ACTION BY ORIGINATOR
Unauthorized Debit to Consumer Account Using Corporate SEC Code —A debit entry that uses a corporate SEC code was transmitted to a consumer account but was not authorized by the consumer.	R05	CCD, CTX	60 Calendar Days	Stop initiation of entries.
Authorization Revoked —Customer who previously authorized an entry claims authorization has been revoked.	R07	PPD, TEL, WEB	60 Calendar Days	Stop initiation of entries until new consumer authorization is obtained. Depending upon the terms of the original authorization, your company may have recourse for collection outside the ACH Network.
Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account —Receiver doesn't know or have a relationship with the Originator. No authorization provided. Signature on source document or written authorization is not authentic, valid or authorized.	R10	ARC, BOC, IAT, POP, POS, PPD, TEL, WEB	60 Calendar Days	Stop initiation of entries.
Customer Advises Entry Not in Accordance with Terms of the Authorization —Authorization obtained, but error in payment (e.g. wrong amount; debit date before authorized; incomplete transaction; improper source document or exceeds reinitiation attempts). reversing entry was improperly initiated by ODFI/Originator, or receiver did not affirmatively initiate a Subsequent Entry with accordance with the terms of the Standing Authorization.	R11	ARC, BOC, IAT, POP, POS, PPD, TEL, WEB	60 Calendar Days	Your company may initiate a new entry to correct the underlying error without obtaining a new authorization. Corrected entry must be originated within 60 days of the Settlement Date of the R11 return entry.
Corporate Customer Advises Not Authorized —Corporate customer has notified RDFI that a specific entry is not authorized.	R29	CCD, CTX	2 Banking Days	Stop initiation of entries until subsequent authorization has been obtained. If a valid authorization exists, your company may have recourse outside the ACH Network.

eCheck Based Returns

REASON FOR RETURN	RETURN CODE	SEC CODE	RETURN TIMEFRAME	ACTION BY ORIGINATOR
Source Document Presented for Payment —The source document to which an ARC, BOC or POP entry relates has also been presented for payment.	R37	ARC, BOC, POP	60 Calendar Days	Accept return. The source document (i.e. check) may not be presented for payment if ACH debit is initiated.
Improper Source Document/Source Document Presented for Payment —The RDFI determines the source document used for the ARC, BOC or POP entry is not an eligible item or was presented for payment.	R39	ARC, BOC, POP	2 Banking Days	Stop initiation of entries.
State Law Affecting RCK Acceptance —RDFI is located in a state that has not adopted Revised Article 4 of the UCC or RDFI is located in a state that requires all canceled checks to be returned to the Receiver.	R50	RCK	2 Banking Days	Stop initiation of entries.
Item is Ineligible, Notice Not Provided, Signatures Not Genuine, Item Altered or Amount of RCK Not Accurately Obtained from the Item.	R51	RCK	60 Calendar Days	Do not reinitiate the entry. Your company may attempt collection of item outside the ACH Network.



TAKE NOTE:
Codes Included When Calculating the Unauthorized Return Rate:
R05, R07, R10, R11, R23, R29, R37, R39, R50, R51

Return Rate Reporting Threshold

When requested by *Nacha*, an ODFI is required to provide certain information about an Originator who exceeds the unauthorized return threshold of 0.5%. This information is required to be sent to *Nacha* within 10 banking days of the request and will include a statement that either refutes or substantiates the claim. (Subsection 2.18.2.1)

If the ODFI confirms the allegation, it must provide additional information about the Originator and present a plan for reducing the return rate to below 0.5% within 30 calendar days of *Nacha's* request. The plan must be provided to *Nacha* within 10 banking days of the request. (Subsection 2.18.2.2)

ODFI must reduce the Originator's unauthorized return rate below 0.5% within 30 days of *Nacha's* request and maintain that rate for an additional 180 days. (Subsection 2.18.2.3)

ODFI Request for Return

An ODFI may request an RDFI to return an erroneous entry or credit entry. The RDFI may comply with the request, but it is not mandatory. If the RDFI does honor the request for return, the ODFI indemnifies the RDFI against any loss. (2.13.2)

ODFI Request Return Reason Codes

REASON FOR RETURN	RETURN CODE	SEC CODE	RETURN TIMEFRAME	ACTION BY ORIGINATOR
ODFI Request for Return—ODFI requested that the RDFI return an entry.	R06	ALL	Undefined	Accept requested return.

Dishonoring Returns

ODFIs/Originators may dishonor a return entry, with the exception of IAT, if the return entry:

- Was sent outside of the established timeframes,
- Contains incorrect or missing information,
- Was misrouted,
- Was a duplicate, or
- Was coded R06 (ODFI Request for Return) or R31 (Permissible Late Return of CCD/CTX) and the ODFI did not request back or give permission, respectively. (Subsection 2.13.6.1)

ODFIs/Originators may dishonor the return of a debit entry that is associated with:

- A credit entry sent in error kept by the RDFI, or
- A reversing credit entry kept by the RDFI (Subsection 2.13.6.2)

Dishonored Return Timeframe

Dishonored returns must be transmitted within 5 banking days from the Settlement Date of the return entry. (Subsection 2.13.6.1)

Dishonored Return Reason Codes

DISHONOR CODE	REASONS FOR DISHONORING A RETURN
R61	Misrouted Return —Return was received by wrong financial institution due to incorrect routing number.
R62	Return of Erroneous or Reversing Debit —The use of the reversal process resulted in, or failed to correct, an unintended credit to the Receiver.
R67	Duplicate Return —More than one return entry has been sent for the same entry.
R68	Untimely Return —The return entry was not sent within the appropriate return timeframe.
R69	Field Errors —Return contained one or more input errors. Codes will be used in the Addenda Record to indicate the field(s) in error. Codes to be used are: 01-Account Number 03-Amount 05-Transaction Code 07-Invalid Effective Entry Date 02-Trace Number 04-Individual ID 06-Company ID
R70	Permissible Return Not Accepted/Return Not Requested by the ODFI —RDFI initiated a return as “R31—Permissible Return Entry” without ODFI permission or “R06-Returned per ODFI’s Request” when the ODFI did not make such a request.

ACH PROCESSES

Accepting Contested/Corrected Dishonored Returns

RDFIs may transmit a corrected return in response to a dishonored return entry claiming the return entry contained incorrect or missing information. (Subsection 3.8.5.1)

RDFIs may transmit a contested dishonored return that corresponds to the reason for the dishonor:

- Original return was timely
- Original return was not a duplicate entry
- Original return was complete and did not contain errors
- Dishonored return was misrouted or untimely (Subsection 3.8.5.2)

- Dishonored return relates to an erroneous entry or related reversing entry in which both entries were returned by the RDFI, or the funds related to an unintended credit are not recoverable from the Receiver (Subsection 3.8.5.2)

An ODFI must accept a Contested Dishonored Return. (Subsection 2.12.6.3)

Contested/Corrected Dishonored Return Timeframe

Corrected return entries must be transmitted within 2 banking days after the Settlement Date of the dishonored return. (Subsection 3.8.5.1)



TAKE NOTE:

An Originator may accept any Return Reason Code outside of the appropriate timeframe but must let the ODFI know to allow the late return through their system.

Contested Dishonored Return Reason Codes

CONTESTED DISHONORED CODE	REASONS DISHONORED RETURNS ARE CONTESTED
R71	Misrouted Dishonored Return —Dishonored Return was received by wrong financial institution due to incorrect routing number.
R72	Untimely Dishonored Return —Dishonored Return was sent outside of the 5 banking day return time frame.
R73	Timely Original Return —Return was sent within the prescribed return timeframe, but ODFI erroneously dishonored it.
R74	Corrected Return —Return was dishonored as “R69 – Field Errors,” and RDFI corrected the errors.
R75	Return Not a Duplicate —Return was dishonored as “R67 – Duplicate Return,” but return was not a duplicate.
R76	No Errors Found —Return was dishonored as “R69 – Field Errors,” but the RDFI could not identify noted errors.
R77	Non-Acceptance of R62 Dishonored Return —RDFI returned both the erroneous entry and related reversing entry; or RDFI was unable to recover the funds related to the entry in error from the Receiver.

Contesting Contested Dishonored Returns

ODFIs may not contest a contested dishonored return through the ACH Network, but may have cause to pursue any further action outside the Network. (Subsection 2.13.6.3)

Late Returns

ODFIs may agree to accept a late return entry (R31). (Subsection 2.13.7)

Permissible Return Reason Codes

REASON FOR RETURN	RETURN CODE	SEC CODE	RETURN TIMEFRAME	ACTION BY ORIGINATOR
Permissible Return Entry —ODFI agrees on behalf of the Originator to accept a return after the deadline for an unauthorized corporate entry.	R31	CCD, CTX	Undefined	Accept return as agreed upon with RDFI. If your company or ODFI has not given permission for the untimely return, the return may be dishonored as R70.

Recall by ODFI/Originator

Neither an Originator or ODFI has the right to recall an entry or file once the entry or file has been received by the ACH Operator. (Section 2.8)

NOCs

RDFIs may send a Notification of Change (NOC) instead of returning an ACH debit. When sending NOCs, they must be transmitted within 2 banking days of the Settlement Date of the entry to which it relates. (Subsection 3.9.1)

ODFIs must accept NOCs and provide the NOC information to the Originator within 2 banking days of the Settlement Date of the NOC. For recurring entries, the Originator must make the specified changes within 6 banking days of receipt of the NOC or prior to initiating another entry, whichever is later. The Originator

may choose, at its discretion, to make the specified changes received for any ARC, BOC, POP, RCK, XCK, single entry TEL and single entry WEB. (Subsection 2.12.1)

When an Originator makes a change based on the information provided by the RDFI in an NOC, all other authorization warranties are voided in subsequent entries. (Subsection 2.4.2)

ODFIs/Originators may refuse an NOC, with valid reason. Refused NOCs must be transmitted within 15 days of receipt of the NOC. (Subsection 2.12.2)

Notification of Change Codes

CHANGE CODES USED BY RDFI	DESCRIPTION OF ERROR	ACTION REQUIRED BY ORIGINATOR
C01	Account Number —The account number is incorrect or is formatted incorrectly.	Change the Receiver's account number record so the correct information is entered.
C02	Routing Number —A once valid routing number must be changed.	Change the Receiver's financial institution routing number so the correct information is entered.
C03	Routing Number and Account Number —The routing number and account number are incorrect.	Change the Receiver's financial institution routing number and account number so the correct information is entered.
C05	Transaction Code —An incorrect transaction code is causing the entry to be routed to the wrong type of account.	Change the type of account. The account type is indicated on the ODFI's report by a two-digit transaction code. Contact your ODFI if clarification is needed.
C06	Account Number and Transaction Code —The account number is incorrect and the transaction is being routed to the wrong type of account.	Change the Receiver's account number and type of account so the correct information is entered.
C07	Routing Number, Account Number and Transaction Code —The routing number, account number and account type are incorrect.	Change the Receiver's financial institution routing number, account number and type of account so the correct information is entered.
C08	Incorrect Individual ID Number —Receiving DFI ID in an IAT is incorrect.	Enter correct Receiving DFI ID in first 34 positions of the Corrected Data Field.
C09	Individual ID Number —Individual ID Number is incorrect.	Change the Individual ID Number so the correct information is entered.
C13	Addenda Format Error —The Entry Detail Record was correct, but the information in the Addenda Record was unclear or formatted incorrectly (i.e. not formatted in ANSI or Nacha-endorsed banking conventions).	Review the formatting in the Addenda Record that accompanied the original ACH entry to determine errors and make corrections using only ANSI standards or Nacha-endorsed banking conventions.
C14	Incorrect SEC Code for Outbound IATs —Used by Gateway to let ODFI know that future entries should be identified as IAT.	IAT in the first three positions of the Corrected Data Field identifies the payment as international. Further payments must use the IAT format.

Reversals

Reversing Files

Reversing files can be sent by an Originator or ODFI (and the ACH Operator under Section 4.3,) to reverse all entries of an erroneous file (i.e., duplicate file or wrong file). (Subsection 2.9.1)

Reversing files must be accompanied by a correcting file unless the erroneous file is a duplicate. (Subsection 2.9.2)

Reversing files must be initiated within 5 banking days after the Settlement Date of the erroneous file and within 24 hours of discovery of the error. An Originator sending a reversing debit file must ensure the Effective Entry Date is not earlier than the Effective Entry Date of the erroneous credit file to which it relates. (Subsection 2.9.3)

The ODFI/Originator initiating a reversing or correcting file shall indemnify every Participating DFI. (Subsection 2.9.4)

Authorization is not required for a reversing file. (Subsection 2.9.5)



TAKE NOTE:

The difference in determining how to handle a Reversal is whether the Originator is reversing an entire file or just a single entry.

Reversing Entries

A reversing entry can be sent by an Originator to correct an erroneous credit or debit entry. A reversing entry must be transmitted within 5 banking days after the Settlement Date of the erroneous entry. An Originator sending a reversing debit entry must ensure the Effective Entry Date is not earlier than the Effective Entry Date of the erroneous credit entry to which it relates. (Subsection 2.10.1)

Erroneous entry is defined as:

- A duplicate entry,
- A payment to or from a Receiver different than intended,
- A payment in an amount different than intended, or
- A PPD credit satisfying each of the following criteria: (i) PPD credit is Receiver's payroll, (ii) Receiver was given a check at or prior to separation from employment for the full amount of the PPD credit, and (iii) the PPD credit was transmitted prior to delivery of the check. (Subsection 2.10.1)

The Originator must attempt to notify the Receiver of the reversing entry no later than the Settlement Date of the reversing entry. (Subsection 2.10.1)

An ODFI/Originator initiating a reversing entry shall indemnify every Participating DFI. (Subsection 2.9.3)

Authorization is not required for a reversing entry. (Subsection 2.10.3)

Death

Commercial Reclamations

An Originator or ODFI may initiate a reclamation entry or a written demand for payment of benefit payments (e.g., private pension, annuity, etc.) received after the recipient's date of death. (Subsection 2.11.1)

Reclamation entries or written demands cannot be for an amount that exceeds the amount of payments received after the date of death. (Subsection 2.11.2)

Originators must originate a reclamation entry or written demand within 5 banking days after the Originator receives notice of the



TAKE NOTE:

The *ACH Rules* only cover Commercial Reclamations. Reclamations for Federal Government benefit payments are governed by 31 CFR Part 210 and are summarized in the U.S. Treasury's *Green Book*.

death of the Receiver. If an RDFI returns a reclamation entry, the Originator may make a written demand within 15 banking days. A reclamation entry must not contain an Effective Entry Date that is earlier than the Effective Entry Date of the credit entry to which it relates. (Subsection 2.11.4)

An RDFI may debit the Receiver's account, if a reclamation is sent in accordance with the *Rules*. (Subsection 3.6.1)

An RDFI must either accept the reclamation or properly return the reclamation. (Subsection 3.6.2)

The RDFI of the deceased recipient is only liable for the lesser of:

- The amount of the payments being reclaimed or
- The amount in the Receiver's account at the time the RDFI receives the reclamation. (Subsection 3.6.3)

Commercial reclamations will be subordinate to claims by the Federal Government. (Subsection 2.11.5)

RDFI's liability for commercial reclamations may be altered through a Master Agreement. (Subsection 2.11.6)

Authorization is not required for a reclamation entry. (Subsection 2.11.8)

APPENDIX 9

Appendix 9 of the *Rules* outlines the procedures that should be taken if a financial institution has reason to believe that a party to an ACH transaction is violating the *Rules*. If the Originator feels the *Rules* have been violated by another participant, they should work with the ODFI to see if a *Rules* violation is possible. If the ODFI receives a *Rules* violation for one of their Originators, most likely the ACH Origination Agreement will pass all fines back to the Originator.

The following participants can file a ACH Rules Violation against any participant in the ACH Network who they believe has violated a *Rule*:

- *Nacha* (includes data provided by Federal Reserve Bank on Unauthorized, Administrative and Overall Return Rates)
- ODFIs
- RDFIs
- ACH Operator

While an Originator cannot file a Report of Possible Rules Violation directly, they can use their ODFI to do so. Likewise, while a Report of Possible Rules Violation cannot be filed against an Originator, any fines and penalties filed against an ODFI, because of an Originator's error, may be passed on to the Originator.

A Report of Possible Rules Violation must be submitted within 90 days of the occurrence of the rule being potentially violated. A Report of Possible Rules Violation must include:

- Identification of Parties
- A statement outlining the reason(s) for the filing of the Report of Possible Rules Violation.
- Summary of Facts
- Supporting Documentation
- Signature

If the violation is the first such infraction by a violator, *Nacha* will send a notice to the ACH manager of the violator within 10 banking days. The violator must respond to the notice within 10 banking days by acknowledging or refuting the infraction. If

the infraction is not the first of its kind by the violator, *Nacha* will determine whether the violation would categorize as a Class 1, Class 2 or Class 3 violation. Depending on the classification, a Notice of Possible Fine will be issued to the violator, and the issue will be forwarded to the ACH Rules Enforcement Panel (a nominated group of industry experts). The violator must respond to the Notice of Possible Fine within 10 banking days by acknowledging or refuting the infraction. Just like the first violation a violator receives, they must provide supporting documentation to prove their innocence or a plan to show how they plan to resolve the issue. The response will be presented to the ACH Rules Enforcement Panel.

Fines will be as follows:

VIOLATION	PENALTY
Class 1 Rules Violation 1st Occurrence	Up to \$1,000
Class 1 Rules Violation 2nd Occurrence	Up to \$2,500
Class 1 Rules Violation 3rd Occurrence	Up to \$5,000
Class 2 Rules Violation (Includes Unauthorized Entry Return Rate Threshold, Administrative Return Rate Level and Overall Return Rate Level Infractions)	Up to \$100,000 per month until the problem is resolved (separate fines may be assessed per Originator violating the <i>ACH Rules</i>)
Class 3 Rules Violation (Includes situations where a Class 2 Rules Violation has continued for 3 months)	Up to \$500,000 per month until the problem is resolved (Originators may be suspended from the ACH Network if a Class 3 violation has occurred)

The ACH Rules Enforcement Panel is the final authority regarding fines and penalties issued by *Nacha*. Fines will be collected by transmitting an ACH debit to the Federal Reserve Account of the financial institution violating the *ACH Rules*. Notice of the fine amount and debit date will be sent at least 7 Banking Days prior to the debit. Financial Institutions can debit the accounts of the Originators, Third-Parties or Receivers responsible for the ACH rules violation, in accordance to the agreements between the financial institution and the parties affected.



TAKE NOTE:
All Notice of Possible *Rules* Violations will also be forwarded to the violator's Payments Association and/or Federal Reserve Bank.

the violator acknowledges that they have, in fact, violated a rule, they must also provide a statement explaining how they plan to resolve the violation. If a violator refutes the claim, they must provide supporting information to prove no infraction has been committed. *Nacha* can then review the response and determine if further action should be taken.

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