

2021 ACH Rule Changes and Updates

*Jessica Lelij, AAP
Product Manager, EFT, MY CU Services, LLC*



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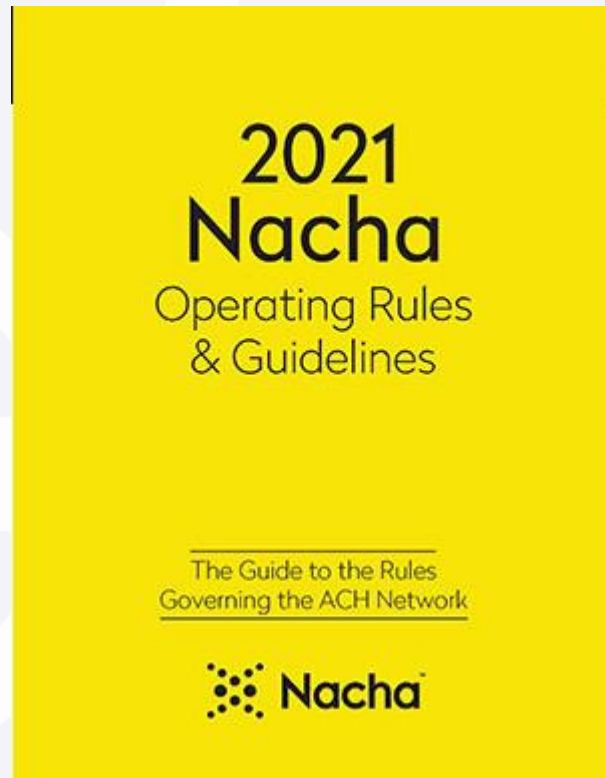
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“2021 ACH Rule Changes and Updates” discussed in this presentation is the current version with effective date of January 20, 2021.

The comments today are my own and not necessarily those of MY CU Services or the MY CU Services membership.

Nacha



- All participating financial institutions are required to annually conduct an audit of their compliance with the ACH rules.
- Books can be ordered through Nacha.
 - <https://www.nacha.org/>
 - Paper and electronic (online) versions available
- Upcoming ACH rules
 - <https://www.nacha.org/rules/upcoming>

Agenda

2020 Review

January 1-Enforcement Rule

March 19-Expansion of Same Day ACH

March 19-Supplementing Fraud Detection Standards for WEB Debits

April 1-Unauthorized Entry Fee applies to R11

June 30-Supplementing Data Security Requirements

June 30-Limitations on Warranty Claims

June 30-Reversals Rule

September 17-Meaningful Modernization

Proposed Rule

Questions

2020 Review

2020 Review

- March 20, 2020- Same Day ACH transaction limit was increased to \$100,000.00
- April 1, 2020- The R11 return reason code was repurposed to communicate an error with an otherwise authorized payment
 - R11-Customer Advises Entry Not in Accordance with the Terms of the Authorization
 - **April 1, 2021- The R11 return reason code becomes covered by the existing Unauthorized Entry Fee.**
- Supplementing data security requirements was postponed.
 - Implementation will begin in 2021.

2020 Review

- July 1, 2020-ACH Contact Registry opened for registration
- October 30, 2020-Deadline to register
- Nacha will not enforce this rule for an additional period of nine months, through July 31, 2021, during which non-compliant institutions can register without any enforcement action.
- The ACH Contact Registry is being created for financial institutions to be able to more easily connect with each other about ACH operations, exceptions and risk management.
- The registry of financial institution contacts will be made available to registered financial institutions, the ACH Operators and Payment Associations to use in addressing and resolving ACH operations and risk management situations.
- All financial institutions participating in the ACH Network will be required to register contact information with Nacha for personnel or departments responsible for ACH operations and fraud/risk management.
 - *Best Practice-Conduct an annual review of registered information for accuracy.*

Enforcement Rule

January 1, 2021

Enforcement Rule-January 1

- The purpose of this rule is to improve enforcement capabilities for egregious violations of the ACH rules.
- Nacha has defined an Egregious Violation as:
 - A willful or reckless action, and
 - Involves at least 500 entries or multiple entries that amount to at least \$500,000.00
- Nacha will have the right to initiate the Rules violation process and the ACH Rules Enforcement Panel will determine if the violation is egregious and then classify the violation as a Class 2 or Class 3 Rules violation.
 - Nacha could assess penalties of up to \$500,000.00 per occurrence and direct the ODFI to suspend the Originator or Third-Party Sender.
- Allows Nacha to report Class 3 Rules violations to ACH Operators and regulators.

Expansion of Same Day ACH

March 19, 2021

Expansion of Same Day ACH-March 19

The purpose of this rule is to expand access to Same Day ACH by allowing Same Day ACH transactions to be submitted to the ACH Operator for an additional two hours every business day.

- Currently, the latest that an ODFI can submit files of Same Day ACH transactions to an ACH Operator is 2:45 p.m. ET.
- The new window will allow Same Day ACH transactions to be submitted to the ACH Operator until **4:45 p.m. ET.**
- Interbank settlement for these entries would occur at **6:00 p.m. ET.**
- Same Day ACH credits received at this time would be required to be available no later than the end of the FI's processing day.

Expansion of Same Day ACH-March 19

Factors to consider:

- Cash position
- Staffing
- File processing
- Dates in originated files
- Posting
- Reconcilement
- Risk Management

Expansion of Same Day ACH-March 19

Same Day Eligible Forward Items

Transmission Deadline ¹	Target Distribution ²	Settlement Schedule ³
10:30 a.m. ET (1030 ET)	Noon ET (1200 ET)	1:00 p.m. ET (1300 ET) – current day
2:45 p.m. ET (1445 ET)	4:00 p.m. ET (1600 ET)	5:00 p.m. ET (1700 ET) – current day
4:45 p.m. ET (1645 ET)	5:30 p.m. ET (1730 ET)	6:00 p.m. ET (1800 ET) – current day

Future Dated Forward Items

Transmission Deadline ¹	Target Distribution ²	Settlement Schedule ³
10:30 a.m. ET (1030 ET)	Noon ET (1200 ET)	8:30 a.m. ET (0830 ET) – future business day ⁴
2:45 p.m. ET (1445 ET)	4:00 p.m. ET (1600 ET)	8:30 a.m. ET (0830 ET) – future business day ⁴
4:45 p.m. ET (1645 ET)	5:30 p.m. ET (1730 ET)	8:30 a.m. ET (0830 ET) – future business day ⁴
8:00 p.m. ET (2000 ET)	10:00 p.m. ET (2200 ET)	8:30 a.m. ET (0830 ET) – future business day ⁴
2:15 a.m. ET (0215 ET)	6:00 a.m. ET (0600 ET)	8:30 a.m. ET (0830 ET) – future business day ⁴

Supplementing Fraud Detection Standards for WEB Debits

March 19, 2021

Supplementing Fraud Detection Standards for WEB Debits-

March 19

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

Supplementing Fraud Detection Standards for WEB Debits- March 19

- Potential Impact:
 - Possible changes to ACH Originators' fraud detection systems
 - Increased cost of originating WEB debits for some parties
 - RDFIs could receive a greater volume of ACH prenotifications, micro-transactions or other account validation requests
- The rule becomes effective on **March 19, 2021**.
- Nacha will not enforce this rule for an additional period of one year from the effective date with respect to originators that are working in good faith toward compliance, but that require additional time to implement solutions.
 - Nacha strongly encourages all originators of WEB debits to work toward compliance as soon as possible.

Supplementing Data Security Requirements

June 30, 2021

Supplementing Data Security Requirements-June 30

- The purpose of this rule is to supplement the existing account information security requirement for large-volume Originators and Third-Party Service Providers.
- Large non-FI Originators, Third-Party Service Providers and Third-Party Senders will be required to protect deposit account information by rendering it unreadable when it is stored electronically.
- Rule does not specify a method/technology.
 - (i.e. Encryption, truncation, tokenization, etc.)

Supplementing Data Security Requirements-June 30

- Implementation will occur in two phases based on transaction volume.
 - Phase 1-**June 30, 2021** for Originators and Third-Parties with ACH volume exceeding six million transactions annually
 - Phase 2-**June 30, 2022** for Originators and Third-Parties with ACH volume exceeding two million transactions annually
- Nacha will not enforce this rule for an additional period of one year from the effective date with respect to entities that are working in good faith toward compliance, but that require additional time to implement solutions.
 - Nacha strongly encourages all covered entities to work toward compliance as soon as possible.

Limitations on Warranty Claims

June 30, 2021

Limitations on Warranty Claims-June 30

- The purpose of this rule is to limit the length of time in which an RDFI will be permitted to make a claim against the ODFI's authorization warranty.
 - All ODFIs warrant that all entries they initiate into the ACH network are authorized.
- For entries to non-consumer accounts:
 - One (1) year from the settlement date of the entry
- For entries to consumer accounts:
 - The first ninety-five (95) calendar days from the settlement date of the first unauthorized entry to the consumer's account (the first 95 days)
 - If outside the first ninety-five days, then two (2) years from the settlement date of the entry (the last 2 years)
- Beginning on June 30, 2021, the new rule will apply to all warranty claims moving forward, no matter the settlement date of the entry.

Limitations on Warranty Claims-June 30

- **Example:**
 - Claim date/notification by member: December 5, 2020
 - Member advises five (5) years' worth of unauthorized debits (January 2016 to December 2020)
 - R10 returns within 60 calendar days:
 - 2 entries (November and December 2020) returned through the ACH Network
 - Warranty Claim for payments within the first 95 days:
 - 4 entries (January, February, March and April 2016)
 - Warranty Claim for payments within the last 2 years:
 - 22 entries (January 2019 –October 2020)
 - Total: 28 out of 60 payments

Reversals Rule

June 30 ,2021

Reversals Rule-June 30

- The purpose of this rule is to deter and prevent the improper use of reversals and the harm it can cause.
- Currently, reversing entries are used to reverse erroneous entries that:
 - Duplicate a previously initiated entry
 - Orders payment to or from an unintended receiver
 - Orders payment in a dollar amount different than what was intended by the originator
- “Wrong date” will be added as a permissible reason for a reversal.
 - A debit entry that was for a date earlier than intended by the originator
 - A credit entry that was for a date later than intended by the originator
- The rule makes explicit that the use of reversals for any other reason is **not allowed**.

Reversals Rule-June 30

- The rule establishes formatting requirements.
 - The company ID, SEC code and dollar amount must be identical to the original entry.
 - The company entry description must contain REVERSAL.
- The rule permits RDFI's to return improper reversals.
 - Consumer accounts-R11 (60 calendar days)
 - Non-consumer accounts-R17 (2 banking days)
 - FI identified-R17 (2 banking days)

Meaningful Modernization

September 17, 2021

Meaningful Modernization-September 17

- Meaningful Modernization is a group of 5 new rules that cover:
 - Standing Authorization
 - Oral Authorization
 - Other Authorization Proposals
 - Alternative to Proof of Authorization
 - Written Statement of Unauthorized Debit (WSUD) via Electronic or Oral Methods
- The purpose of this new set of rules is to improve and simplify the ACH user experience.
 - Allows for the adoption of new technologies and channels for the authorization and initiation of ACH payments
 - Reduces barriers to use of ACH
 - Provides clarity and increasing consistency around certain ACH authorization processes
 - Reduces certain administrative burdens related to ACH authorizations

Standing Authorization

- Currently, ACH authorizations only address single entries or recurring entries that occur at regular intervals.
- A Standing authorization will be defined as an advance authorization by a consumer for future debits that will occur at various intervals.
 - Standing authorization may be obtained in writing or orally.
 - Payments initiated based on a standing authorization will be referred to as Subsequent entries.
 - Standing authorization must identify the action the consumer must take to initiate subsequent entries.
 - Originator may initiate subsequent entries using additional SEC codes (WEB or TEL) specific to the action taken by the consumer to initiate the entry.

Standing Authorization

- Proof of authorization for entries under a standing authorization must include:
 - A copy of the standing authorization, and
 - Evidence of the consumer action taken to initiate each subsequent entry
- Originators must retain:
 - A copy of each standing authorization for two (2) years following termination or revocation of the standing authorization
 - Proof of each subsequent entry for two (2) years following the settlement date of each entry

Oral Authorization

- This new rule defines and allows “Oral Authorization” as a valid authorization method for consumer debits when the oral authorization is not received via a telephone call.
 - This new rule will expand the use of oral authorizations.
- Currently, the SEC code TEL is the only payment type that has requirements and addresses risks specific to an oral authorization, but TEL is specific to a telephone call.
 - Many newer channels make use of verbal interactions and voice-related technologies.
 - I.E. Alexa, Siri, Google, Zoom, Skype, Facetime
 - The rule clarifies the use of SEC codes and risk management requirements related to oral authorizations.

Other Authorization Proposals

- The purpose of this rule is to provide clarity, flexibility and consistency to the general authorization rules.
 - Brings uniformity to authorizations
 - Applies to new authorizations, not existing authorizations
- Clarity:
 - Re-organizes the general authorization rules to incorporate Standing and Oral Authorizations
 - Defines “recurring entry” to complement the existing definition of single entry and the newly defined subsequent entry
- Flexibility:
 - Explicitly states that authorization for a non-consumer ACH debit can be made by any method allowed by law/regulation
- Consistency:
 - Applies the standards of “readily identifiable” and “clear and readily understandable” to all authorizations
 - Defines the minimum required information that an authorization should include

Alternative to Proof of Authorization

- This new rule allows an ODFI to agree to accept the return of an entry as an alternative to providing proof of authorization.
 - The ODFI will have ten (10) banking days to either provide the proof of authorization or agree to accept a return.
 - In the event that the ODFI agrees to accept a return, the RDFI will have ten (10) banking days to complete the return.
- If the ODFI agrees to accept the return but the RDFI still requests proof of authorization, the ODFI still must comply and provide the proof within ten (10) banking days of the RDFI's request.

Written Statement of Unauthorized Debit (WSUD) via Electronic or Oral Methods

- This new rule clarifies and makes explicit that an RDFI may obtain a consumer's WSUD electronically or orally.
- A consumer is permitted to sign a WSUD with an Electronic Signature.
- RDFIs may need to incorporate new procedures and technologies to accommodate this new rule.
- RDFIs will still need to be able to provide, upon request, the WSUD.
- ODFIs could potentially receive the WSUD in various formats.

Proposed Rule

Proposed Rule

- Nacha is requesting comment on a proposed rule which would increase the Same Day ACH transaction limit, incrementally, over 3 phases.
- The increases would apply to all Same Day ACH payments.
 - Consumer and Business
 - Debit and Credit
- The proposed schedule of increases is as follows:
 - **March 18, 2022**-increase to \$1,000,000.00
 - **March 17, 2023**-increase to \$10,000,000.00
 - **March 15, 2024**-Same Day ACH transaction limit would be eliminated
- Comments are due by January 22, 2021.
- <https://www.nacha.org/rules/increasing-same-day-ach-dollar-limit-0>