



# NACHA Quarterly Rulemaking Update

February 15, 2018

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# Agenda

- Standing Rules Work Group Activities
  - Same Day ACH Expansion RFC/RFI
  - DFI to DFI Messaging RFC
  - Risk Management RFC
- Rules Implementing in 2018
  - Same Day ACH
  - Third Party Sender Registration



Same Day ACH Expansion

# **REQUEST FOR COMMENT/INFORMATION**

# Expanding Same Day ACH – Current Request for Comment

RFC/RFI issued on December 1, 2017

## Request for Comment proposals:

- Add a third Same Day ACH processing window later in the day
- Provide faster funds availability for both Same Day and non-Same Day ACH credits
- Raise the per-transaction dollar limit on Same Day ACH Entries
- Closed **Friday, January 26, 2018.**

## Request for Information:

- Requests feedback on the potential benefits and impacts of ACH processing on weekends and holidays
- Feedback requested by **Friday, February 23, 2018.**

# Add a Same Day ACH Processing Window – The Proposal



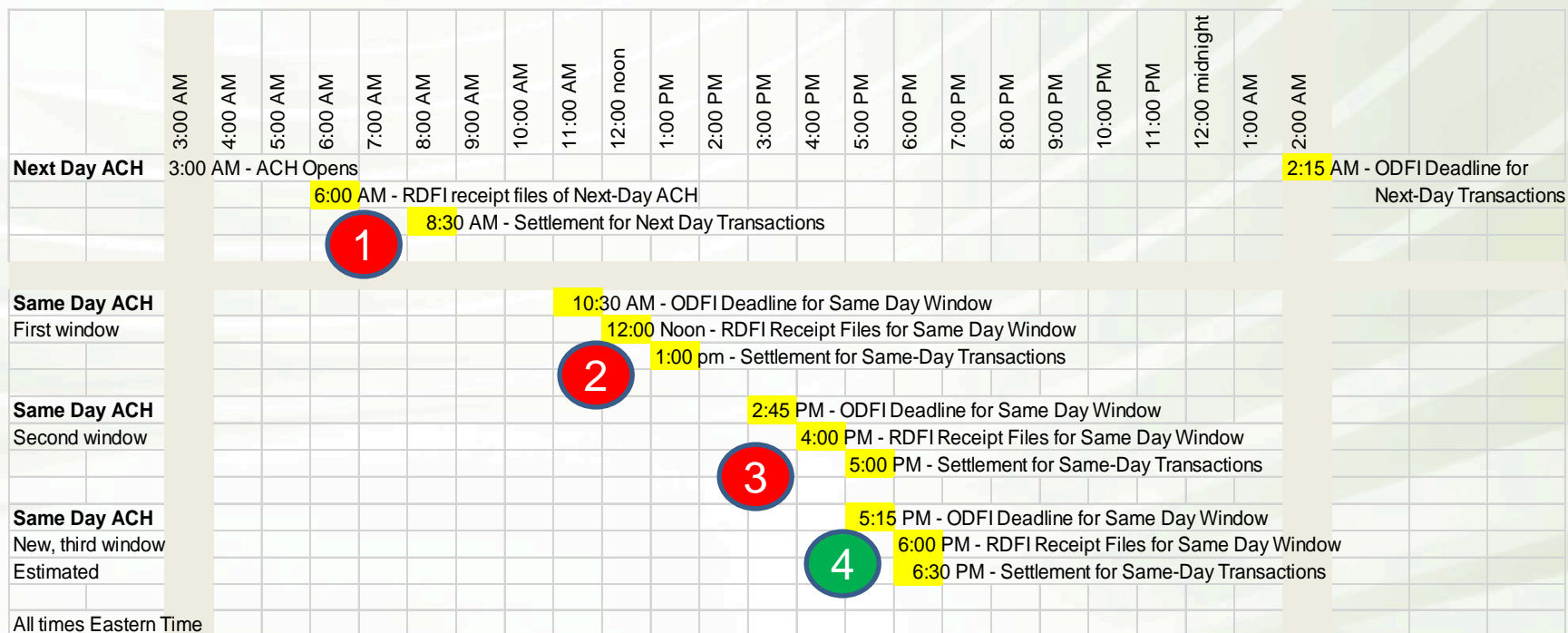
- The ACH Operators would establish a third, daily Same Day ACH processing and settlement window\*
  - ODFIs would be able to submit SDA files until 5:15 p.m. ET / 2:15 p.m. PT
    - This timing provides ODFIs operating in Pacific Time with an afternoon schedule that is similar to that currently available to ODFIs operating in Eastern Time
  - RDFIs would receive files of SDA transactions by 6:00 p.m. ET / 3:00 p.m. PT
  - Interbank settlement would occur at 6:30 p.m. ET / 3:30 p.m. PT
  - An RDFI would make funds available for SDA credits in this new SDA processing window no later than the end of its processing day
    - This uses the same end-of-day requirement as did Phases 1 and 2
    - An RDFI could decide to exceed the minimum requirement
  - Eligibility for SDA would be the same as currently exists – all credits and debits would be eligible for SDA processing, except international ACH transactions (IATs) and transactions over \$25,000

*\* The times cited here are best estimates. The exact ACH Operator processing schedules are not determined by the NACHA Operating Rules, and the inclusion of proposed ACH Operator schedules and other functions in this proposal should not be interpreted as an endorsement by either ACH Operator.*

# Add a Same Day ACH Processing Window – SDA Windows Overview



This chart shows the current next-day ACH and same-day ACH schedules, along with the proposed new Same Day ACH schedule, creating a total of four daily settlements (*all times shown in Eastern Time*)



# Faster Funds Availability – The Proposal



- For SDA credits received in the first SDA window, funds would be required to be made available by 1:00 p.m. RDFI local time
- For non-SDA credits:
  - For credits received prior to 5:00 p.m. RDFI local time, funds would be required to be made available by 9:00 a.m. local time on Settlement Day
    - This is similar to the existing rule on availability for PPD credits; however, the current “opening of business” language is changed to “9:00 a.m. local time”
  - For credits received after 5:00 p.m. RDFI local time, funds would be required to be made available by 1:00 p.m. local time on Settlement Day
- All funds availability times are “no later than”
  - An RDFI can exceed the minimum requirement

# Faster Funds Availability - Overview

Proposed changes to existing rules are shown in green

Processing Window/ Schedule	RDFI receipt time	Current funds availability requirement	Proposed funds availability requirement
First SDA window	12:00 noon ET	5:00 p.m. local time*	1:00 p.m. RDFI local time
Second SDA window	4:00 pm ET	5:00 p.m. local time	5:00 p.m. RDFI local time
New, third SDA window**	6:00 p.m. ET	N/A	End of processing day
Non-SDA	Received prior to 5:00 p.m. local time	- Opening of business for PPD - End of settlement date for non-PPD	9:00 a.m. RDFI local time for all SEC Codes
Non-SDA	Received after 5:00 p.m. local time	End of settlement date	1:00 p.m. RDFI local time

\* RDFIs in the Atlantic Time Zone may use Eastern Time as local time

\*\* Assumes adoption

# Same Day ACH Per-Transaction Limit – The Proposal and Alternatives



- NACHA proposes to increase the SDA per-transaction dollar limit from \$25,000 to \$100,000
  - An additional 1.3% of ACH volume would become eligible for SDA
  - For B2B payments, an additional 7% would become eligible
- Alternatives include:
  - Higher or lower amounts as the limit (e.g., \$50,000; \$250,000)
  - Different limits for credits and debits (e.g., \$100,000 for credits; \$25,000 for debits)
  - Different limits for certain SEC Codes
  - Raising the limit for the existing SDA windows, while retaining the current \$25,000 limit for the new SDA window due to its timing late in the day

# Expanding Same Day ACH – Proposed Effective Dates



- Faster funds availability
  - Proposed effective date of **March 15, 2019**
- Add a new, third SDA processing window
  - Proposed effective date of **September 20, 2019**
  - Dependent upon the availability of interbank settlement services to support this new processing window by this proposed effective date
- Increase the per-transaction dollar limit
  - Proposed effective date of **March 20, 2020**
  - Provides the industry with 6-month's experience with the new window at relatively lower dollar amounts before raising the limit
- Alternatives include switching the effective order of the increased dollar limit and the new processing window
  - This alternative might be more attractive if the industry needs additional time to implement the proposed new processing window, or if interbank settlement will not be available by the proposed effective date
- Comments from the industry are requested on these proposed effective dates and alternatives

# ACH Processing on Weekends & Holidays – Request for Information



- Although not a formal proposal to amend the *Rules* at this time, NACHA requests that ACH participants provide feedback on the potential benefits and impacts of greater ACH processing on weekends and holidays
- Currently, there is no interbank settlement of ACH transactions on weekends and holidays
  - These are not Federal Reserve banking days, and the Fed's National Settlement Service is not available
- This RFI assumes that interbank settlement of “weekend and holiday ACH” would take place on the next banking day
  - For example, a credit or debit received on a Saturday could be memo-posted to the account, but settlement would occur Monday morning (or Tuesday morning on a holiday weekend)
  - Alternatively, the Fed could make NSS available on Saturday as an early opening of Monday's banking day
    - In this scenario, funds would settle between financial institutions on Saturday, but would reflect Monday's banking day regarding Federal Reserve accounts



DFI to DFI Messaging

# REQUEST FOR COMMENT

# Proposal Overview

- Proposal to utilize the ACH Network for a new, ubiquitous capability to exchange non-monetary messaging between financial institutions
- Financial Institutions would utilize these Entries and supporting Addenda Records as messages and responses to request and provide various types of information related to ACH transactions
  - Record of Authorization
  - Source Document (converted check) copy
  - Written Statement of Unauthorized Debit copy
  - ODFI-requested returns
  - Additional information related to an Originator
  - Trace Request

# Proposal at a Glance

- The ACH Network currently supports several types of non-monetary messages
  - Prenotification – used to validate account information
  - Notification of Change – corrects routing and/or account information
  - Death Notification – allows federal government agencies to notify FIs of the death of a beneficiary
- New non-monetary messages are similar in concept to these existing messages and could lay the groundwork for other enhancements or innovative uses of messaging in the ACH Network.



## Moving Forward into RFC Phase

- Based upon analysis, Product Innovation will be releasing a Request For Comment with the Full Approach as the desired end-state
  - Full Approach provides the greatest industry benefits and best business case
  - Questions in RFC around implementation industry preference; phased or “big bang” implementation



Risk Management Topics

# REQUEST FOR COMMENT

## Background

- A number of risk management-related Rules ideas have been proposed, requested, or recommended recently
  - Rules to address social media-fueled routing number fraud
  - Additional account information security protection
  - Limiting the length of the ODFI's authorization warranty
  - Differentiating types of “unauthorized” returns
- All these topics are being reviewed in greater depth at the Rules and Operations and SWG levels
- Intent is to pull together as a single RFC

## Rulemaking Topics

- Social media-fueled routing number scheme
  - Explicitly include account validation and reasonableness testing within the scope of the existing requirement to use a “commercially reasonable fraudulent transaction detection system” to screen WEB debits
  - Define a new R-code for “no account, questionable activity”
    - Would enable differentiation from other returns (R03/R04)
  - Exploring how to improve existing ACH capabilities for prenotes and/or micro-validation transactions
    - Use Same Day processing
    - Standardize Entry Descriptions for micro-validations
    - Benefits and costs of a required prenote responses
  - How can we encourage RDFIs to automate returns?

# Rulemaking Topics

- Account Information Security

- Expand existing ACH Security Framework rules to explicitly require Originators/Third-Party Senders to protect DDA information by rendering it unreadable anywhere it is stored electronically
  - Intended to be identical to PCI requirement
  - Neutral as to methods/technology – can be encryption, truncation, tokenization, etc.
- Potential phased implementation to start with largest Originators
  - Initial phase applies to ACH Originators/Third-Party Senders with greater than “x” volume (PCI Merchant 1 level is 6 million)
    - NACHA would have authority to classify an Originator/TPS as Level 1 based on an account data compromise
  - Next phase applies to ACH Originators/Third-Party Senders with greater than “y” volume (PCI Merchant 2 level is 1 million)
  - Also could include threshold levels specific to WEB origination; analogous to PCI e-commerce thresholds

# Rulemaking Topics

- Limiting the length of time of the ODFI's authorization warranty
  - A major pain point for ACH originators, especially consumer billers, is receiving “unauthorized” returns long after the expiration of the extended return deadline
    - For example, a consumer claims to its FI (the RDFI) that the past 4 years of recurring bill payments are unauthorized
    - While extended returns for unauthorized entries are allowed by the Rules for 60 days, the ODFI authorization warranty currently does not have a time limit defined in the Rules
    - Frequently, the RDFI requests and the ODFI agrees to accept late returns of all the entries, and charges them back to the Originator
  - The ACH Network is one of the few payment systems without a time limit for Warranty Claims
    - Time limits are determined by statutes of limitations, which vary from state to state, and can be as long as 10 years
  - Proposal to establish a time limit in the Rules for RDFIs to make a claim on the authorization warranty
    - Need to balance fairness to ACH Originators with need to adequately protect consumers and business Receivers
    - Time limit could be different for consumer and business Receivers

# Rulemaking Topics

- Differentiating types of “unauthorized” returns
  - Currently, R10 is a catch-all for various types of underlying reasons
    - Wrong date
    - Wrong amount
    - Incomplete transaction
    - Originator not known/recognized
    - Authorization never given
  - ODFIs and their Originations might benefit from a clearer differentiation
  - Proposal would repurpose R11 to be used for errors, but for which there is an underlying authorization
    - R11 volume is currently very low - 345 in 2017, none of which are related to original purpose to return check truncation entries
    - Will have extended return time frame and requirement for Written Statement
  - R10 would be used when there is no underlying authorization – i.e., “Customer Advises Originator is Not Known to/Never Authorized by Receiver to Debit Receiver's Account”



Rules Compliance Audit Requirements

# **REQUEST FOR COMMENT**



# Rules Compliance Audit Proposal

- Purpose – Simplify the Rules and the Rulebook with respect to the Audit
- Proposal – Remove Appendix Eight and all its prescribed audit topics in their entirety from the Rules
  - Move those topics, in less prescriptive language, to the Guidelines
    - Consolidate all audit references to one location in the Guidelines instead of multiple locations
  - Makes it easier to update language on audit topics as the ACH Network and operating environment change
    - Eliminates need to amend the audit methodology via the Rules process
  - Can reference other items in the Guidelines that are not directly covered by the Rules
  - Many RPAs already offer audit workbooks
- Does not change audit requirements, only the structure in Rules
  - General audit obligation, deadline, and proof of completion still defined in Rules



# Rules Implementing in 2018



Same Day ACH – Phase 3

**EFFECTIVE MARCH 16, 2018**

# A Phased Approach to Implementing New ACH Network Functionality

To allow the industry to acclimate to a faster processing environment, as well as to ease the industry's implementation effort, these new capabilities are becoming effective over three phases beginning in September 2016.

Functionality	Phase 1 Sept. 2016	Phase 2 Sept. 2017	Phase 3 March 2018
Transaction Eligibility (\$25,000 limit; IAT not eligible)	Credits only	Credits and debits	Credits and debits
New Same Day ACH Processing Windows	10:30 am ET and 2:45 pm ET	10:30 am ET and 2:45 pm ET	10:30 am ET and 2:45 pm ET
New Settlement Time(s)	1:00 pm ET and 5:00 pm ET	1:00 pm ET and 5:00 pm ET	1:00 pm ET and 5:00 pm ET
ACH Credit Funds Availability	End of RDFI's processing day	End of RDFI's processing day	5:00 pm RDFI local time

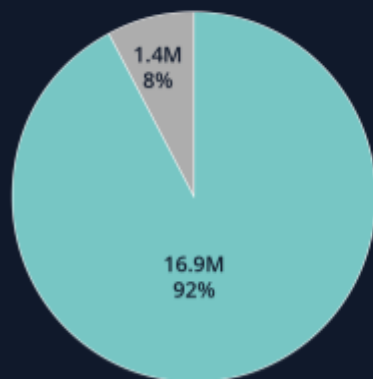
# Use Cases for Same Day ACH Debits

<div>1</div> <div><b>Payroll</b> – faster payroll payments for hourly or temporary workers, and faster options for off-cycle payments such as bonuses or emergency payments</div>	<div>2</div> <div><b>Urgent claims payments and refunds</b> – quick payout of insurance claim payments, disaster assistance payments, and other rebates, refunds and reimbursements</div>				<div>B2C</div>	
<div>3</div> <div><b>Invoice and tax payments</b> – faster payment of invoices on or after the due date, and same-day remittance of tax payments</div>						<div>B2B</div>
<div>4</div> <div><b>Person-to-Person payments</b> – quicker delivery of funds for transfers among family members or friends</div>			<div>5</div> <div><b>Account-to-Account payments</b> – movement of funds between accounts at different financial institutions, or funding of a prepaid or mobile account</div>			<div>C2C</div>
<div>6</div> <div><b>Bill Payment</b> – faster payment of bills on or after the due date</div>	<div>7</div> <div><b>Online/Internet payments</b> – faster payments for eCommerce</div>	<div>8</div> <div><b>Point-of-Sale Check Conversions</b> – quicker collection of funds for check conversion</div>	<div>9</div> <div><b>Collection payments</b> – enabling same-day payoff of past-due accounts</div>	<div>10</div> <div><b>Merchant debit payments</b> – faster returns for consumer payments</div>		<div>C2B</div>

# 2017 SAME DAY ACH VOLUME

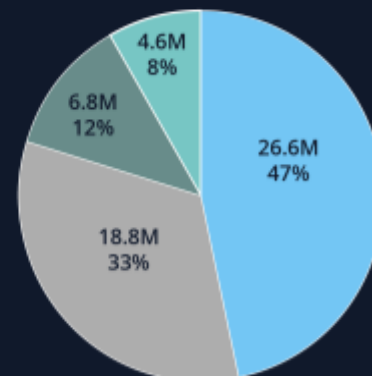
75.1 Million Same Day ACH Payments Were Made in 2017, Totaling More Than \$87.1 Billion.

## DEBIT VOLUME



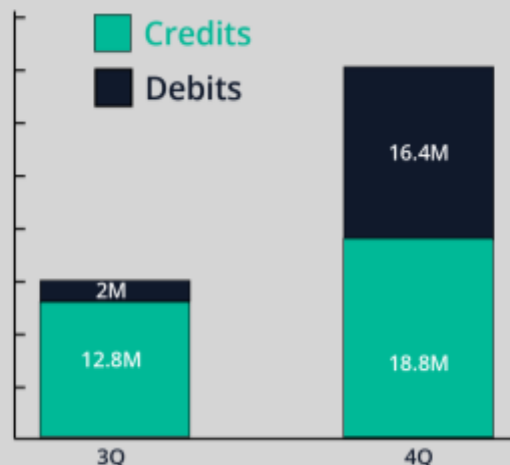
Consumer Bill Pay and Account-to-Account Transfer  
Business-to-Business Payments

## CREDIT VOLUME



Direct Deposit for Payroll and Other Consumer Disbursements  
Business-to-Business Payments  
Person-to-Person  
Consumer Bill Pay

## 3Q AND 4Q 2017 SAME DAY ACH VOLUME

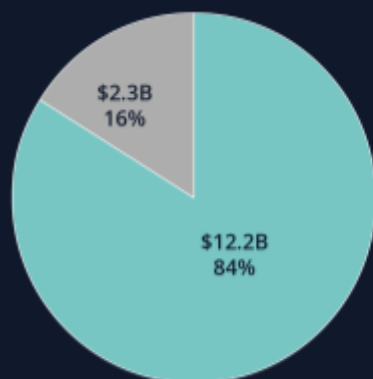


Credits  
Debits

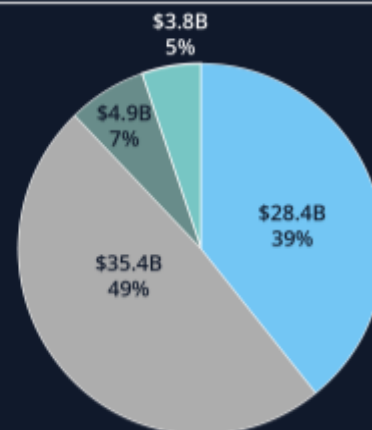
Consumer Bill Pay and Account-to-Account Transfer  
Business-to-Business Payments

Direct Deposit for Payroll and Other Consumer Disbursements  
Business-to-Business Payments  
Person-to-Person  
Consumer Bill Pay

## DEBIT VALUE



## CREDIT VALUE



To learn more, go to <https://resourcecenter.nacha.org/>

# SAME DAY ACH

Volume Expected to Continue Growing at Rapid or Steady Rate

A Qualitative Survey Conducted November-December 2017 of 22 Financial Institutions Comprising 78% of ACH Network Origination

Over the next 6-9 months, Same Day ACH volume is expected to grow

**82%**

expect Same Day ACH **Debit** volume will grow at a rapid or steady rate



**78%**

expect Same Day ACH **Credit** volume will grow at a steady rate

## ORIGINATING FINANCIAL INSTITUTIONS

**84%**

said actual volume was the same or higher than anticipated



## BUSINESS USERS

**64%**

of financial institutions report middle market corporations are most interested in Same Day ACH



## RECEIVING FINANCIAL INSTITUTIONS

**90%**

said actual volume was the same or higher than anticipated



**0%**

For the fourth consecutive time, not one respondent saw ANY INCREASE in fraud due to Same Day ACH

**95%**

of respondents have met or will meet 5 p.m. local time funds availability by January 2018



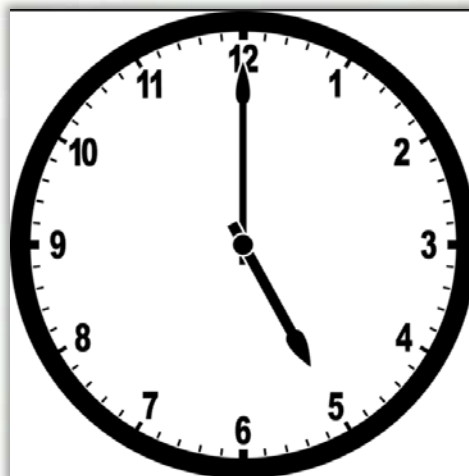
# What's Next

## Phase 3 – Funds Availability

- Credit Entries

- *NACHA Operating Rules* requirement

- Currently: End of Processing Day
    - March 16, 2018: 5:00pm local time



# What's Next

## Phase 3 – Funds Availability

- NACHA's initial RDFI readiness survey of top RDFIs found 71% intended to meet the Phase 3 requirement by the Phase 1 go-live date
  - The remainder would be ready by the Phase 3 deadline
  - Survey of 44 of the Top 50 RDFIs, conducted June 2016
  - A follow-up survey is planned
- Separately, a recent survey on NACHA's behalf conducted by PYMNTS.com, primarily of smaller financial institutions, found that 67% are already meeting the Phase 3 requirement
  - The remainder would be ready by the Phase 3 deadline
  - 125 respondents, 68% with assets under \$500M, conducted Summer 2017



# Resource Center

<https://resourcecenter.nacha.org/>

- Corporate Same Day ACH Information
- Effective Entry Date Guidance
- Posting and Handling Guidance
- Testing Tips
- Infographics
- Webinars
- Much, much more!



Third Party Sender Registration

**EFFECTIVE SEPTEMBER 29, 2017**  
**MARCH 1, 2018 DEADLINE**



## The Rule Applies to All ODFIs

- Every ODFI is required to either:
  - Register its Third-Party Senders, or
  - State that it has no Third-Party Senders
  - This registration model is the same that is already used with Direct Access Registration
- In order to register accurately, every ODFI will need to know whether it has Third-Party Sender customers
- The Rule became effective on September 29, 2017
- Initial registrations must be completed by March 1, 2018

# NACHA's Risk Management Portal

NACHA's Risk Management databases are moving to the new [Risk Management Portal](#)

- Required by the NACHA Rules
  - Third-Party Sender Registration (New)
  - Direct Access Registration (Re-attest)
- Voluntary
  - Emergency Financial Institution Contact Database
  - Terminated Originator Database
- Retiring Originator Watch List (OWL)



## NACHA's Risk Management Portal

- Each financial institution should register only once.
  - NACHA uses information from Accuity, the Routing Number (RTN) registrar, to link RTNs owned by the financial institution.
- Each financial institution will select one employee to act as administrator and register for access to the Risk Management Portal.
  - The administrator has the ability to add up to four additional users.
  - Administrators and users have access to view and edit.

# Registration Information & Timeline

ODFIs must register the TPS within the later of:

- 30 days of transmitting the first entry
- 10 days of becoming aware of a TPS relationship

The ODFI has 45 days to update the registration for any changes including termination

## Initial

- ODFI name
- ODFI contact information (name, title, phone, email and street address)
- TPS name, city, state, company ID
- ODFI ABA used in transmitting entries for the TPS

## Supplemental (if needed)

- TPS DBA names, tax ID, street address, website
- TPS contact information (name, title, phone, and email)
- TPS principal names and titles
- approximate number of originators
- statement as to whether the TPS transmits debits, credits, or both



## ODFIs – Implementation Checklist

- Review current clients for TPS
  - If none, submit statement indicating no TPS clients
- For ODFIs with Third-Party Sender clients
  - Collect or ensure all information for initial registration is available for all identified TPSs
    - Do your Third-Parties Senders have their own Third-Party Senders? How will you know? Ask.
  - Develop procedures for submitting initial registrations, both for current TPS customers and new TPS customers after Sept. 2017
  - Develop procedures for submitting updates to registered TPS
  - Develop procedures to be able to respond to requests for supplemental registration information
    - Be able to collect/have access to required information

**Initial registrations must be completed by March 1, 2018**



## Current Status

A number of financial institutions have begun registering through the portal:

- Though the end of Oct. 2017:
  - 1,582 ODFI Registrations in the Risk Management Portal.
  - 173 FIs have registered 1,069 TPSs.



# Education

- NACHA Website
  - <https://www.nacha.org/riskmanagementportal>
    - NACHA's Risk Management Portal will go live prior to the effective date
      - Third-Party Sender Registry
      - Direct Access Debit Registry
      - Terminated Originator Database
      - Financial Institution Emergency Contact Database
  - [www.nacha.org/rules/third-party-sender-registration](http://www.nacha.org/rules/third-party-sender-registration)
    - Additional information an explanation of the Rule
  - [www.nacha.org/thirdpartysenders](http://www.nacha.org/thirdpartysenders)
    - Third-Party Sender educational materials
    - Material specific to the TPS Registration Database



# Thank You!

[amorris@nacha.org](mailto:amorris@nacha.org)

# Your definitive sources of <sup>faster</sup> payments education



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