

NACHA Operating Rules

Improving ACH Network Quality



NACHA’s new “ACH Network Risk and Enforcement” and “ACH Network Quality” Rules seek to further improve the quality of ACH transactions by reducing the incidence of exceptions and returns, and the associated financial and reputational costs they can impose on the ACH Network and its participants. As components of NACHA’s Risk Management Strategy, the Rules amendments are part of NACHA’s ongoing efforts to strengthen the ACH Network for the consumers, governments, businesses and financial institutions that move their money via ACH.

Rules Summary

The “ACH Network Risk and Enforcement” Rule improves NACHA’s ability to identify and enforce the Rules against “outlier” Originators or Third-Party Senders that may be responsible for the highest, and most disproportionate, levels of exceptions. This Rule establishes an inquiry process that provides NACHA with a preliminary evaluation point to research the facts behind an Originator’s or Third-Party Sender’s ACH activity.

The “ACH Network Quality” Rule defines and establishes the methodology for an Unauthorized Entry Fee to be paid by an Originating Depository Financial Institution (ODFI) to a Receiving Depository Financial Institution (RDFI) for the return of an unauthorized transaction. An Unauthorized Entry Fee will provide an incentive for ODFIs to implement processes and tools with their Originators or Third-Party Senders that reduce unauthorized transactions. The fee also will provide partial cost recovery to RDFIs for their costs in handling unauthorized transactions.

ACH Network Risk and Enforcement

- Lowers the existing unauthorized return rate threshold from 1.0% to 0.5%
- Establishes an inquiry process that provides NACHA with a preliminary evaluation point to research the facts behind an Originator’s or Third-Party Sender’s ACH activity
- Preliminary research as part of the inquiry process begins when an Originator or Third-Party Sender exceeds:
 - An administrative return rate of 3.0%
 - An overall return rate of 15.0%
- Clearly defines reinitiation and practices that are permissible under the Rules
- Requires RETRY PYMT in the Company Entry Description
- Explicitly applies risk management and transaction monitoring requirements to Third-Party Senders

ACH Network Risk and Enforcement

- Defines additional circumstances under which NACHA may initiate a risk investigation or rules enforcement proceeding regarding improper authorization
- Incorporates the use of an industry review panel as a “check and balance” regarding the materiality of a case before NACHA proceeds with an investigation

ACH Network Quality

- Establishes and defines the methodology for an unauthorized entry fee paid by the ODFI and passed through to the RDFI
 - NACHA staff will set fee based on results of RDFI cost study
 - Best available current data supports fee in range of \$3.50 - \$5.50 per unauthorized entry
 - Does not include stop payments within scope of unauthorized fee

For more information and resources, visit www.nacha.org.

Risk & Enforcement: Points of Evaluation

	Unauthorized Return Threshold Enforcement Process	Inquiry Process for Administrative & Overall Returns
Exploration and Dialogue	1 NACHA identifies Originator or Third-Party Sender potentially above unauthorized return threshold through ACH Operator-provided return data.	NACHA identifies Originator or Third-Party Sender potentially above administrative and/or overall return rate level through ACH Operator-provided return data.
	2 NACHA notifies ODFI that there is reason to believe that unauthorized return threshold has been exceeded.	NACHA notifies ODFI that there is reason to believe administrative or overall return levels have been exceeded.
	3 ODFI responds with admission/denial and required information. If ODFI denies return threshold has been exceeded, NACHA validates documentation and closes case, and informs ODFI of closure. If ODFI does not respond or the response is incomplete, case enters the System of Fines.	ODFI responds with admission/denial and supplemental information. If ODFI denies return rate level(s) have been exceeded, NACHA validates documentation and case closes . NACHA informs ODFI of closure. If ODFI does not respond or the response is incomplete, case enters the System of Fines.
Additional Review/ Inquiry Process	4 N/A	If ODFI acknowledges the return level(s), NACHA staff reviews documentation and based on the facts, determines whether to forward materials to ACH Rules Enforcement Panel for evaluation. If not forwarded, case closes and ODFI notified.
	5 N/A	NACHA staff forwards to panel. Panel reviews documentation and makes a determination of whether to direct the ODFI to reduce return level(s). If panel declines to require return level(s) to be lowered, case closes and the ODFI is notified.
Formal Request to Reduce Return Threshold or Level	6 If the ODFI acknowledges that unauthorized return rate threshold is above 0.5%, it must include a plan for reducing the rate below 0.5% within 30 days.	NACHA sends ODFI letter informing of the panel's determination and requires the ODFI to reduce return level(s). ODFI has 30 days to comply.
Return Threshold or Level Reduction	7 NACHA confirms whether return threshold has been reduced within 30 days. NACHA monitors for an additional 180 days to ensure return rates remain reduced.	NACHA confirms whether return level(s) have been reduced within 30 days. NACHA monitors for an additional 180 days to ensure return level(s) remain reduced.
Case Closed <i>or</i>	8 If ODFI complies, the case closes . If ODFI does not reduce the rate within 30 days or fails to maintain for 180 days, case goes to System of Fines.	If ODFI complies, the case closes . If ODFI does not reduce the level within 30 days or fails to maintain for 180 days, case goes to System of Fines.
System of Fines	9 ACH Rules Enforcement Panel (consisting of industry peers) reviews case and determines fine.	ACH Rules Enforcement Panel (consisting of industry peers) reviews case and determines fine.