Account Information Improvements Through the ACH Network

Request for Comment

May 20, 2020

Account Information Improvements - Request for Comment Summary

- Nacha is issuing for comment a set of proposals to amend the Nacha Rules to improve the capabilities of the ACH Network to validate and correct account information. These proposed changes would provide ACH Network participants with more reliable, low-cost, network-based solutions to validate a Receiver's account. The set of proposals should be considered in its entirety in order to provide benefits to all parties in the ACH Network.

- The proposals would:

    1. Provide a "Yes/No" response by an RDFI to all prenotifications;
    2. Shorten the timing for a prenote and its response;
    3. Standardize practices for the use of micro-entries;
    4. Standardize formatting for both prenotes and micro-entries; and
    5. Improve compliance with Notifications of Change.

- Responses on these proposed changes are requested by July 17, 2020

Request for Comment – Proposal Rationale

- ACH Originators and service providers seek improvements to the ACH Network's account validation capabilities
  - Many do not use them today as they consider the existing processes to be slow and inconclusive
- At the same time, RDFIs often express frustration that corrected account information provided in Notifications of Change (NOCs) is frequently ignored
- This set of Rules proposals intends to improve both sides of the account information equation by:
  - Improving the function and effectiveness of the ACH Network's account validation methods, and
  - Improving the effectiveness of the NOC process
- By addressing both sides, this proposal intends to provide benefits for both the origination and receipt side of ACH payments

Request for Comment – Proposal Rationale

- Ultimately, more effective account information processes would improve the experience for consumers and businesses that use ACH payments
    - Better and faster account information processes would be more effective
    - More effective processes should lead to greater use
    - Greater use would result in more validated and corrected account information achieved through the ACH Network
    - More validated and corrected account information would mean that consumer and business receivers would have a better experience in using ACH payments
    - Greater compliance with NOCs mean more Receivers do not experience disruption in their payments
- ODFIs and RDFI both would experience fewer account information exceptions and rejects on behalf of their customers

Proposal Part 1 - Prenotifications – Getting a Response

This part of the proposal intends to improve the function and effectiveness of prenotifications

- A prenotification is a $0 test transaction that an Originator can use prior to initiating live entries
- Currently, an RDFI responds to a prenote with a Return or a Notification of Change (NOC) only when the account information is not valid; there is no response when account information is valid
- Under this proposal, an RDFI would respond with a Yes or No to all prenotes
    - The ACH Acknowledgement Entry (ACK SEC Code) would be re-purposed as this response
    - The Discretionary Data field of the ACK would contain either "Y" or "N"
    - This proposed acknowledgement framework would take the place of the current framework that uses Returns and NOCs
    - As a result of re-purposing the ACK SEC Code, the other type of acknowledgement – the ATX – would be retired, and eliminated from the Rules

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Proposal Part 1 - Prenotifications – Accelerating the Cycle

This part of the proposal intends to improve the function and effectiveness of prenotifications
- The prenote and response process would be accelerated
- Prenotes would be processed by the ACH Operators during the next available processing window, including the three Same Day ACH windows
- RDFIs would respond to prenotes no later than the processing window on the next Banking Day that corresponds to the processing window in which the prenote was received (i.e., approximately a 24-hour response)
- Originators would be permitted to send live entries as soon as they receive a Yes response
  - This waiting period would be substantially shorter than the current three Banking Day waiting period

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Proposal Part 1 - Prenotifications – Formatting Standards

This proposal would establish standardized formatting requirements for prenotes
- Prenotes would have the word "VALIDATION" in the Company Entry Description Field
- The Company Name field must contain the name by which the Originator is known to and readily recognized by the Receiver, and must be the same Originator name to be used in future, live ACH Entries
- A Prenotification Entry must bear an appropriate Transaction Code

These standards would be useful to help Receivers identify and understand the purpose of prenotes if RDFIs want to, or are encouraged to, present prenotes to Receivers via statements, alerts, and notifications

Proposal Part 2 - Micro-Entries for Account Validation

This proposal would recognize Micro-Entries as a specific means of account validation
- The use of ACH micro-entries for account validation has been created organically by the industry, but currently is not defined or described in the Rules
- This proposal would define a Micro-Entry as an entry for less than $1 that is used for account validation
- Prior to initiating live entries, an Originator may originate one or more Micro-Entries for the purpose of validating a Receiver's account at the RDFI
- An Originator that has originated one or more Micro-Entries to a Receiver's account may initiate subsequent live Entries to the Receiver's account as soon as the Receiver completes the Originator's process for validating the amounts of the Micro-Entries

Proposal Part 2 - Micro-Entries – Formatting Standards

This proposal would establish standardized formatting requirements for Micro-Entries
- Micro-Entries would have with the word "VALIDATION" in the Company Entry Description Field
- The Company Name field of a Micro-Entry must contain the name by which the Originator is known to and readily recognized by the Receiver of the Entry and must be the same Originator name to be used on future, live Entries
- These formatting requirements will help Receivers identify them, and have a similar and more consistent experience across different Originators
- Better and standardized formatting across Originators could enable and encourage RDFIs to send alerts or notifications to consumers about these validation requests, which would improve their effectiveness

Proposal Part 2 - Micro-Entries – Other Requirements

Other requirements for Micro-Entries
- A Micro-Entry may be a credit Entry or a debit Entry, and must be in an amount less than $1.00
- An Originator that transmits one or more debit Micro-Entries must simultaneously transmit one or more credit Micro-Entries that, in aggregate value, equals or exceeds the value of the debit Micro-Entry(ies)
  - In other words, the total amount a Receiver is debited through one or more Micro-Entries must never exceed the total amount credited through one or more Micro-Entries

Proposal Part 3 – Notifications of Change (NOC)

This proposal is intended to improve the effectiveness of the NOC process
- An ODFI will be required to provide information from an NOC to its Originator within one Banking Day
  - This is an improvement from the current requirement of two Banking Days
- An Originator would be prohibited from invalidating a Receiver's authorization due to the receipt of an NOC
  - An Originator may not require the Receiver to confirm the validity of the corrected data provided by the RDFI, or to provide a new authorization
  - This is often the source of repeat and ongoing NOCs
  - It also leads Originators and consumers to revert back to using checks when they originally intended to use ACH

Proposal Part 3 – Notifications of Change (NOC)

The proposal would increase enforcement for not using the corrected information provided in an NOC, thereby improving the effectiveness of an NOC

- An ODFI's first violation for failure by its Originator to use corrected information may be classified as a Class 1 rules violation (i.e., subject to a fine)
- An ODFI's second violation for the same infraction by the same Originator for failure to use corrected information may be classified as a Class 2 Rules violation

Anticipated Benefits of the Proposal

Nacha anticipates the following benefits of the proposal

For the ACH Network as a whole:
- Improving the user experience and addressing pain points of both the origination and receipt of ACH payments
- Better, faster and more effective account information processes that benefit both Originators and Receivers
- Fewer exceptions for live ACH entries; and also fewer situations that revert to check due to account number problems

Anticipated Benefits of the Proposal

Nacha anticipates the following benefits for each part of the proposal

Prenotifications would become more effective
- Originators would receive responses to all prenotes
- The prenote and response cycle would become faster, and the associated waiting period would become shorter
- Better and standardized descriptions could enable and encourage more presentment of prenotes to consumers via statements and notifications

Micro-Entries would be standardized
- Standardization would provide a more consistent experience for consumers across multiple Originators
- Better and standardized descriptions could enable better understanding of validation attempts, and encourage additional alerts and notifications to consumers of validation requests

Notifications of Change would become more effective
- A common RDFI pain point - that NOCs are ignored – would be addressed, making it more worthwhile to send NOCs
- A consumer's authorization could no longer be "cancelled" due to an RDFI sending an NOC, which often results in reverting to checks

Anticipated Benefits of the Proposal

Nacha anticipates that the proposal benefits both the origination and receipt sides of ACH payments

Origination
- ACH Originators have access to better and faster account validation methods through the ACH Network
  - Responses to all prenotes
  - Shorter waiting period
  - Fewer exceptions for subsequent live entries

Receipt
- Account validation methods through the ACH Network become more standardized, resulting in a better experience for Receivers/consumers
  - Standardized formatting can enable customer alerts and notifications of account validation requests
  - Customer's payments get set up with fewer exceptions
- Sending corrected information via NOCs become mores effective, and therefore the effort to send them is more worthwhile
  - Customer's ACH authorization won't get "cancelled" due to NOCs

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Anticipated Impacts of the Proposal

Nacha anticipates the following impacts of the proposal

- All financial institutions - ODFIs and RDFIs - would have to adopt the revised "acknowledgment" framework for prenotes, including the ability to use the re-purposed ACK SEC Code for this purpose

RDFIs
- RDFIs would have to send responses to all prenotes, instead of just to prenotes with account number problems
- RDFIs would have to meet the timeframe for responding to prenotes
- RDFIs may want to provide additional alerts and notifications to consumers of prenotes and Micro-Entries received, although this would be optional

ODFIs and Originators
- Originators would have to adopt the formatting conventions for prenotes and Micro-Entries, and observe the required waiting periods
- ODFIs would need to provide NOC information to Originators within one Banking Day
- Originators would have to apply NOC information, and could not cancel a Receiver's authorization
- ODFIs would be subject to heightened enforcement of NOC rule violations by their Originators

ACH Operators
- ACH Operators would have to process all prenotes in the next available processing window

Request for Comment – Proposed Effective Dates

- This RFC proposes that these rules would go into effect on March 18, 2022
  - All elements of the proposed rules would go into effect simultaneously
  - Hypothetically some portions of the proposal could go into effect sooner (e.g., NOC enforcement), but on the whole Nacha thinks it better that all parts of the proposal go into effect at the same time
  - Formatting standards could be adopted earlier by individual Originators

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Request for Comment

Nacha requests industry feedback on all elements of the proposal
- Does this proposal offer sufficient value to both organizations and consumers that use ACH payments?
- Considered in its entirety, does the proposal have a net benefit to the ACH Network? And to your organization?
- Does this proposal adequately balance the anticipated benefits to both origination and receipt?
- Does this proposal adequately balance the impact and implementation effort between origination and receipt?
- Will the proposed changes lead to greater use of the ACH Network's account validation methods?
- Do you support the proposed "acknowledgement" framework for all prenotes? Do you support re-purposing the ACK SEC Code to do this?
- Do you support next available window processing for all prenotes?
- Can RDFIs meet the "24 hour" response time for responding to prenotes?
- Do you agree with the proposed formatting standards for prenotes and Micro-Entries?
- Do you agree with the heightened enforcement for ignoring NOCs?
- Do you agree with the proposed effective date, and that all elements of the proposal should go into effect simultaneously?
- Do you have any other relevant comments on these topics?