

NACHA Operating Rules

ACH Network Risk and Enforcement Improving ACH Network Quality



Overview | August 26, 2014

The NACHA Voting Membership approved two new Rules as complementary approaches to improving ACH Network quality by reducing the incidence of exceptions and returns. 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

In preparing these Rules, NACHA incorporated broad industry feedback — including balancing differing perspectives from many parties — specifically addressing pain points.

The “ACH Network Risk and Enforcement” Rule improves NACHA's ability to identify and enforce the Rules against “outlier” Originators 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 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 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 ACH activity

Preliminary evaluations as part of the inquiry process begin when an Originator 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

Changes the standard use of the Company Entry Description from REDEPOSIT to RETRY PYMT

Explicitly applies risk management and transaction monitoring requirements to Third-Party Senders

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

Improving 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

New Rules Founded in 2012 ACH Network Risk Management Strategy

In 2012, the ACH Network Risk Management Strategy emphasized the need for these Rules, indicating a focus on risk and quality:

“Effective risk management, with a continued focus on quality and efficiency, supports ACH Network growth and innovation.”

Visit NACHA's [website](#) for more information on the Risk Management Strategy.

Rules Inquiry Process: Eight Points of Evaluation

This inquiry process establishes a preliminary evaluation point for when NACHA will research the facts behind an Originator's ACH activity.

	Unauthorized Threshold Enforcement (Current Process)	Proposed Inquiry and Enforcement Process
Exploration and Dialogue	1 NACHA identifies Originator or Third-Party Sender potentially above unauthorized threshold through ACH Operator-provided return data.	NACHA identifies Originator or Third-Party Sender potentially above 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 supplemental information. If ODFI denies return rate 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 industry review panel for evaluation. If not forwarded, case is closed 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 is closed and the ODFI is notified.
Formal Request to Reduce Return Level	6 If the ODFI acknowledges that unauthorized return rate threshold is above 1%, it must include a plan for reducing the rate below 1% 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 Level Reduction	7 NACHA confirms whether return rate 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 System of Fines Panel (consisting of industry peers) reviews case and determines fine.	System of Fines Panel (consisting of industry peers) reviews case and determines fine.