ACH Quality and Risk Management Topics
Request for Comment

Proposed Modifications to the Rules
May 11, 2018

1. LIMITATION ON RDFI WARRANTY CLAIMS
(proposed effective date – March 15, 2019)

ARTICLE ONE – General Rules

SUBSECTION 1.14 Limitation of Claims

No lawsuit, claim, action or proceeding of any kind, to the extent based on an allegation that an Entry was unauthorized, may be brought by an RDFI against an ODFI (a) more than 18 months after the Settlement Date of an Entry to debit or credit a Consumer Account or (b) more than 12 months after the Settlement Date of an Entry to debit or credit a Non-Consumer Account.

2. UNAUTHORIZED RETURN REASON DIFFERENTIATION
(proposed effective date – September 20, 2019)

ARTICLE ONE – General Rules

SUBSECTION 1.11.1 General Rule on Unauthorized Entry Fee

An ODFI agrees to pay an Unauthorized Entry Fee to the respective RDFI for a debit Entry (except for a debit IAT Entry) that is Returned to the ODFI with a Return Reason Code of R05, R07, R10, R11, R29, or R51.

The National Association, in coordination with the ACH Operators, will arrange for a system for the collection and distribution of Unauthorized Entry Fees from and to the Federal Reserve accounts that Participating DFIs use for settlement of their ACH activities.
ARTICLE EIGHT – Definitions of Terms Used in These Rules

SECTION 8.111 “Unauthorized Entry Fee”

A fee paid by an ODFI to the respective RDFI for a debit Entry (except for a debit IAT Entry) that is Returned to the ODFI with a Return reason code of R05, R07, R10, R11, R29, or R51.

SECTION 8.112 “Unauthorized Entry Return Rate”

The rate at which an Originator’s or Third-Party Sender’s debit Entries are returned on the basis that they were unauthorized (Return Reason Codes R05, R07, R10, R11, R29, or R51), as calculated in accordance with Subsection 2.17.2.1(d) (ODFI Return Rate Reporting Regarding an Originator’s or Third-Party Sender’s Unauthorized Entry Return Rate).

APPENDIX THREE – ACH Record Format Specifications

SUBPART 3.2.2 Glossary of Data Elements

Addenda Information: 44 Positions – Addenda Record – Optional (Returns except IAT); 34 Positions – Addenda Record – Optional (IAT Returns); 21 Positions – Addenda Record – Optional/Mandatory (dishonored Returns)

Addenda Information is associated with the immediately preceding Entry Detail Record. The Addenda Information field of a Return Entry is used by the RDFI to relay explanatory information that is required with the use of Return Reason Codes R11 (Check Truncation Entry Return) and R17 (File Record Edit Criteria).

The Addenda Information Field of a dishonored Return Entry is a mandatory field when the dishonored Return bears Return Reason Code R69 (Field Error(s)). When using Return Reason Code R69, the ODFI must insert the appropriate code(s) from the list below, separated by an asterisk (*), within the Addenda Information Field of the Addenda Record Format for dishonored Returns to indicate the field(s) in which the errors occur:

01 Return Contains Incorrect DFI Account Number
02 Return Contains Incorrect Original Entry Trace Number
03 Return Contains Incorrect Dollar Amount
04 Return Contains Incorrect Individual Identification Number/Identification Number
05 Return Contains Incorrect Transaction Code
06 Return Contains Incorrect Company Identification Number
07 Return Contains an Invalid Effective Entry Date

For example: 01*03*06
APPENDIX FOUR – Return Entries

(Introductory Paragraph to Appendix Four)

An RDFI may return Entries for any reason, except as otherwise provided in Article Three, Subsection 3.8.1 (Restrictions on RDFI’s Right to Transmit Return Entries) of these Rules. The RDFI must use an appropriate Return Reason Code as specified in this Appendix Four. If it uses Return Reason Code R11 or R17, it must specify the reason for the Return. If no appropriate Return Reason Code is defined within this Appendix Four, the RDFI must use the code that most closely approximates the reason for Return.

PART 4.2 Table of Return Reason Codes

Please see proposed changes to the descriptions of Return Reason Codes R10 and R11 in the attached Table of Return Reason Codes.

APPENDIX EIGHT – Rule Compliance Audit Requirements

PART 8.3 Audit Requirements for RDFIs and Third-Party Service Providers

j. Verify that Written Statements of Unauthorized Debit are obtained from consumers for all returns bearing Return Reason Codes R05, R07, R10, R11, R37, R51, and R53, and that each Extended Return Entry is Transmitted to the RDFI’s ACH Operator by its deposit deadline for the Extended Return Entry to be made available to the ODFI no later than the opening of business on the Banking Day following the sixtieth calendar day following the Settlement Date of the original Entry. Verify that copies of Written Statements of Unauthorized Debits are provided to the ODFI within the required time frame, when such copies are requested in writing by the ODFI. (Article Three, Subsection 3.11.1 – RDFI General Obligation to Recredit Consumer Accounts, Subsection 3.12.5 – RDFI Must Accept Written Statement of Unauthorized Debit, Subsection 3.12.7 – Copy of Written Statement of Unauthorized Debit, and Subsection 3.13.1 – RDFI May Transmit Extended Return Entries; Appendix Four)

(1Note: A separate Request for Comment on streamlining and simplifying the Rules Compliance Audit Requirements includes, among other changes, a proposal to remove the specific inventory of audit points currently included within Parts 8.2, 8.3, and 8.4 of Appendix Eight. If those changes were to be approved via a future ballot, the proposed changes to section (j), above, will no longer be relevant.)
3. **COMMERCIALy REASONABLE FRAUDULENT TRANSACTION DETECTION**  
*(proposed effective date – September 20, 2019)*

**ARTICLE TWO – Rights and Responsibilities of ODFIs, Their Originators, and Third-Party Senders**

**SUBSECTION 2.5.17.4 Additional ODFI Warranties for Debit WEB Entries**

In addition to the other warranties contained within these Rules, an ODFI originating a debit WEB Entry warrants to each RDFI and ACH Operator that:

(a) *Fraud Detection Systems.* The Originator has established and implemented a commercially reasonable fraudulent transaction detection system to screen the debit WEB Entry. **Such a fraudulent transaction detection system must, at a minimum:** 1) validate the account to be debited for the (a) first use of such account number, and (b) for any subsequent change(s) to the account number; and 2) reasonably relate the dollar amount of the debit WEB Entry to its underlying purpose.

NACHA will not consider a fraudulent transaction detection system to be commercially reasonable if it fails to include these elements.

(b) *Verification of Receiver’s Identity.* The Originator has established and implemented commercially reasonable methods of authentication to verify the identity of the Receiver of the debit WEB Entry.

(c) *Verification of Routing Numbers.* The Originator has established and implemented commercially reasonable procedures to verify that the routing number used in the debit WEB Entry is valid.

4. **QUESTIONABLE ACTIVITY RETURN REASON**  
*(proposed effective date – March 15, 2019)*

**APPENDIX THREE – ACH Record Format Specifications**

**SUBPART 3.2.2 Glossary of Data Elements**

**Addenda Information:** 44 Positions – Addenda Record – Optional (Returns except IAT); 34 Positions – Addenda Record – Optional (IAT Returns); 21 Positions – Addenda Record – Optional/Mandatory (dishonored Returns)

Addenda Information is associated with the immediately preceding Entry Detail Record.

The Addenda Information field of a Return Entry is used by the RDFI to relay explanatory information that is required with the use of Return Reason Codes R11 (Check Truncation Entry Return) and R17 (File Record Edit Criteria/Entry with Invalid Account Number Initiated Under
An RDFI using Return Reason Code R17 to return an Entry that contains an invalid DFI Account Number and is believed by the RDFI to have been initiated under questionable circumstances must insert “QUESTIONABLE” within the first twelve positions of this field. The RDFI may include additional explanatory information within the remaining positions of this field.

The Addenda Information Field of a dishonored Return Entry is a mandatory field when the dishonored Return bears Return Reason Code R69 (Field Error(s)). When using Return Reason Code R69, the ODFI must insert the appropriate code(s) from the list below, separated by an asterisk (*), within the Addenda Information Field of the Addenda Record Format for dishonored Returns to indicate the field(s) in which the errors occur:

- 01 Return Contains Incorrect DFI Account Number
- 02 Return Contains Incorrect Original Entry Trace Number
- 03 Return Contains Incorrect Dollar Amount
- 04 Return Contains Incorrect Individual Identification Number/Identification Number
- 05 Return Contains Incorrect Transaction Code
- 06 Return Contains Incorrect Company Identification Number
- 07 Return Contains an Invalid Effective Entry Date

For example: 01*03*06

APPENDIX FOUR – Return Entries

PART 4.2 Table of Return Reason Codes

Please see proposed changes to the description of Return Reason Code R17 in the attached Table of Return Reason Codes.

5. ACCOUNT INFORMATION SECURITY
(proposed effective dates – Phase 1, applying to entities with an annual ACH volume exceeding 6 million, would be effective January 1, 2019; Phase 2, applying to entities with an annual ACH volume exceeding 2 million, would be effective January 1, 2020.)

ARTICLE ONE – General Rules

SECTION 1.6 Security Requirements (Phase 1 - proposed effective date January 1, 2019)

Each Non-Consumer Originator, Participating DFI, and Third-Party Service Provider, and Third-Party Sender must establish, implement, and update, as appropriate, policies, procedures, and systems with respect to the initiation, processing, and storage of Entries that are designed to:
(a) protect the confidentiality and integrity of Protected Information until its destruction;
(b) protect against anticipated threats or hazards to the security or integrity of Protected Information until its destruction; and
(c) protect against unauthorized use of Protected Information that could result in substantial harm to a natural person.

Such policies, procedures, and systems must include controls that comply with applicable regulatory guidelines on access to all systems used by such Non-Consumer Originator, Participating DFI, or Third-Party Service Provider to initiate, process, and store Entries.

Each Non-Consumer Originator (that is also not a Participating DFI), each Third-Party Service Provider, and each Third-Party Sender, whose ACH Origination or Transmission volume has exceeded 6 million Entries in a year must protect DFI Account Numbers used in the initiation of Entries by rendering them unreadable when stored electronically. Each Non-Consumer Originator covered by this requirement must attest to its compliance to its ODFI or Third-Party Sender by June 30 of the following year. Each Third-Party Service Provider covered by this requirement must attest to its compliance to its counterparty with which it has an agreement to Originate or Transmit Entries by June 30 of the following year.

(1Note: Effective January 1, 2020, the threshold for these requirements will be reduced to include each Non-Consumer Originator (that is not also a Participating DFI), each Third-Party Service Provider, and each Third-Party Sender whose ACH Origination or Transmission volume has exceeded 2 million Entries annually.)
### PART 4.2 Table of Return Reason Codes (continued)

<table>
<thead>
<tr>
<th>CODE</th>
<th>TITLE</th>
<th>DESCRIPTION</th>
<th>INITIATED BY</th>
<th>RETURN TYPE</th>
<th>ACCOUNT TYPE</th>
<th>TIME FRAME</th>
<th>WRITTEN STATEMENT REQUIRED</th>
<th>CROSS REFERENCE</th>
<th>NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>R10</td>
<td>Customer Advises Unauthorized, Improper, Ineligible, or Part of an Incomplete Transaction</td>
<td>The RDFI has been notified by the Receiver that the Entry is unauthorized, improper, ineligible, or part of an incomplete Transaction. For ARC and BOC entries, the RDFI has been notified by the Receiver that the signature on the source document is not authentic or authorized. For POP Entries, the RDFI has been notified by the Receiver that the signature on the written authorization is not authentic or authorized.</td>
<td>RDFI</td>
<td>Extended Return</td>
<td>Consumer, for ARC, BOC, IAT, or POP. Entries may also be a Non-Consumer. See note for additional exceptions.</td>
<td><strong>60 Calendar Days</strong></td>
<td>Yes</td>
<td>Article Three, Subsection 3.12.1(a) - Unauthorized Debit Entry. Article Three, Subsection 3.12.2(a) - Improper ARC, BOC, POP, and RCK Debit Entries. Article Three, Subsection 3.12.3 - Incomplete Transaction. Article Three, Subsection 3.12.4 - Improperly Reinitiated Debit Entries. Article Three, Subsection 3.13 - RDFI May Rely on Standard Entry Class Codes. Article Three, Subsection 3.4.1 Rule Exception for CCD and CTX Entries to Consumer Accounts. Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries. Article Eight, Section 8.53 - Incomplete Transaction.</td>
<td><strong>60 Calendar Days</strong></td>
</tr>
<tr>
<td>CODE</td>
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<tr>
<td>R11</td>
<td>Check Transaction Entry Return Customer Advises Entry Not in Accordance with the Terms of the Authorization</td>
<td>This Return Reason Code is used when returning a Check Transaction Entry. This Return Reason Code is used by the RDFI to return an entry for which the Originator and Receiver have a relationship and an authorization to debit exists, but there is an error or defect in the payment such that the entry does not conform to the terms of the authorization (for example, the entry is for an incorrect amount; the entry was debited earlier than authorized; the entry is part of an Incomplete Transaction; the debit entry was improperly reinitiated for ARC, BOC, or POP entries; ineligible source document; notice was not provided; amount of the entry was not accurately obtained from the source document).</td>
<td>RDFI</td>
<td>Return Extended Return</td>
<td>Consumer or Non-Consumer</td>
<td>2 Banking Days</td>
<td>No</td>
<td>Article Three, Section 3.8 - RDFI Right to Transmit Return Entries Article Three, Subsection 3.12.1(b) - Unauthorized Debit Entry Article Three, Subsection 3.12.2 - Improper ARC, BOC, POP, and RCK</td>
<td>Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries Article Eight Section 8.53 - RDFI Right to Transmit Extended Return Entries Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries Article Three, Subsection 3.12.3 - Incomplete Transaction Article Three, Subsection 3.12.4 - Improperly Reinitiated Debit Entries Article Three, Subsection 3.13 - RDFI May Rely on Standard Entry Class Codes Article Three, Subsection 3.4.1.1 - Rule Exception for CCD and CTX Entries to Consumer Accounts Article Three, Section 3.14 - RDFI Right to Transmit Extended Return Entries Article Eight Section 3.31 - Incomplete Transaction</td>
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<th>CROSS REFERENCE</th>
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</thead>
<tbody>
<tr>
<td>R16</td>
<td>Account Frozen/Entry Returned Per OFAC Instruction</td>
<td>(1) Access to the account is restricted due to specific action taken by the RDFI or by legal action; or (2) OFAC has instructed the RDFI or Gateway to return the Entry.</td>
<td>RDFI or Gateway</td>
<td>Return</td>
<td>Consumer or Non-Consumer</td>
<td>* 2 Banking Days</td>
<td>No</td>
<td>Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.</td>
<td></td>
</tr>
<tr>
<td>R17</td>
<td>File Record Edit Criteria/Entry with Invalid Account Number, Initiated Under Questionable Circumstances</td>
<td>(1) Field(s) cannot be processed by RDFI; or (2) the Entry contains an invalid DFI Account Number (account closed/no account/unable to locate account/invalid account number) and is believed by the RDFI to have been initiated under questionable circumstances.</td>
<td>RDFI</td>
<td>Return</td>
<td>Consumer or Non-Consumer</td>
<td>* 2 Banking Days</td>
<td>No</td>
<td>Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.</td>
<td>(1) Some fields that are not edited by the ACH Operator are edited by the RDFI. If the Entry cannot be processed by the RDFI, the field(s) causing the processing error must be identified in the Addenda Information field of the Return. (2) An RDFI may use Return Reason Code R17 to return an Entry that contains an invalid DFI Account Number and is believed by the RDFI to have been initiated under questionable circumstances. The RDFI must insert &quot;QUESTIONABLE&quot; within the first twelve positions of the Addenda Information field. The RDFI may include additional explanatory information within the remaining positions of this field.</td>
</tr>
</tbody>
</table>

* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the second Banking Day following the Settlement Date of the original Entry.

** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the Banking Day following the sixtieth calendar day following the Settlement Date of the original Entry.