



# Annual ACH Originator Training

This training document includes important information that every Originator should know including key terms, how to initiate entries, setting exposure limits, Same Day ACH requirements, return reason codes, etc.

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## **What is the ACH Network?**

ACH (Automated Clearing House) refers to the nationwide, batch-oriented electronic funds transfer system. The system moves large volumes of transactions between participating financial institutions. The National Automated Clearing House Association (NACHA) and the Federal Reserve Bank's ACH operating circulars establishes ACH rules and regulations.

## **Who are the ACH Participants?**

There are five key participants in completing an ACH transaction:

1. Your company is the Originator who initiates an ACH entry in response to an authorization from a Receiver (consumer or organization) to either credit or debit their account. For example, your company could initiate credit entries via the ACH network to pay your employees or you could initiate debit entries to a consumer or business for the payment of good and services.
2. The Receiver is a person or organization that authorized the Originator (your company) to initiate an ACH entry to their account. For example, your employee is the Receiver if your company initiates a payroll credit. A business partner is the Receiver if your company is sending a credit or debit for good or services.
3. The ACH Operator is the central clearing facility for ACH transactions. This can be the Federal Reserve Bank or private operator who accepts ACH entries from ODFIs and then forwards them to the Receiver's financial institution.
4. The Originating Depository Financial Institution (ODFI) is the financial institution that your company has a contract with for ACH services and is responsible for sending ACH entries into the ACH Network on your behalf. The ODFI forwards ACH entries to the ACH Operator for processing
5. The Receiving Depository Financial Institution (RDFI) is a financial institution that receives entries from its ACH Operator and posts them to the accounts of their customers (Receivers).

## **How does the Originator (your company) initiate ACH entries?**

First, your company must enter into a written contract with your bank (ODFI) that allows you to initiate ACH entries. Second, your company must obtain authorization from the Receiver (your employee or customer) to initiate a transaction to the Receiver's account. Third, your company creates a file of ACH transactions assigning a company name that the Receiver will easily recognize. Fourth, you will send the ACH file to your ODFI in the format required by the ODFI.

Your ODFI collects ACH files, verifies the validity of the files, and then transmits the files to the ACH Operator. The ACH Operator edits the file to ensure proper formatting and then distributes the files to RDFIs. The RDFI receives the files for its account holders. The RDFI posts entries to Receiver's accounts based upon the settlement date and the account number.

## **Exposure Limits**

When your company enters into an agreement with your bank (ODFI), your bank will establish exposure limits. An exposure limit is the maximum dollar threshold for debits/credits your bank (ODFI) will accept from your company – either for a single day or a multi-day period. Files submitted by your company that exceed this limit may be rejected unless an exception is approved by the ODFI. For a typical payroll file, your bank (ODFI) will forward your ACH payroll file to the ACH Operator two days prior to the settlement date. Originators generally do not fund the account from which the ACH credit file will settle until the settlement date. If the Originator does not have sufficient funds on deposit to fund the ACH file on the settlement date, an overdraft will occur. Therefore, the ODFI will establish an exposure limit as a method of managing the ODFI's risk.

On the debit side, the ODFI's exposure begins on the date funds are made available to the Originator and ends on the date on which debits can no longer be returned by the RDFIs. Most entries must be returned within two banking days but the RDFI has up to 60 calendar days to return unauthorized transactions. The amount of risk is based on the amount of returned ACH debit entries and the Originator's ability to cover them.

Ultimately, exposure limits are the maximum total established by the ODFI beyond which the ODFI is unwilling to process additional ACH files. NACHA rules require ODFIs to set and monitor these limits. Your bank (ODFI) will determine your exposure limit based on several factors including transaction history, financial strength, and dollar amounts in previous files processed.

Some ODFIs will require you (the Originator) to pre-fund the amount of an ACH credit file. This means the ODFI will debit or place a hold on your (the Originator) account on the date on which the file is sent to the ACH Operator to ensure funds are available to cover the file on the settlement date.

## **How are ACH entries settled?**

Settlement occurs when a credit or debit entry is reflected on the books of the financial institution. The timing is based upon the Effective Entry Date specified in the ACH file and the time of the file's delivery to the ACH Operator. Your company will determine the Effective Entry Date, the date on which your company intends the entries to post to your Receiver's account. When the ACH Operator processes entries, they read the Effective Entry Date and entries are posted on the Settlement Date. In most cases, the Effective Entry Date and Settlement Date are the same, but it is possible that the ACH Operator cannot settle on the Effective Entry Date. This can be due to untimely delivery of a file, a file contains an Effective Entry Date that has already passed (known as a Stale Date), or has a date occurring on a weekend or holiday. In these cases, the ACH Operator will assign a Settlement Date of the next business day.

## **Same Day ACH**

Domestic ACH debit and credit entries of \$100,000 or less qualify for same day processing. Effective **March 18, 2022**, Nacha will increase the per-transaction dollar limit to \$1,000,000. Entries can be processed during three clearing windows. RDFI's must make same day credit entries available to the Receiver by 1:30 p.m. local time for entries processed during the first processing window, 5:00 p.m. local time for entries processed during the second processing window, and by the end of the RDFI's processing day during the third processing window. Same day credits and debits are perfect for time-sensitive payments and emergency payroll. Also, the ODFI can set approved transaction limits for Originators so your transaction limit may be less. If you are interested in same day processing, please contact us.

**Since transactions are posted based on account number, how does the Originator know they have the correct account information to post an entry?**

Once you collect account information from your Receiver, you may generate a Pre-Notification (pre-note), or a zero dollar entry via your ACH file to verify that the account number on the entry is valid. Pre-notes are optional. If your company chooses to send pre-notes, you are required to initiate these entries at least three banking days before sending a live entry (meaning the entry including the actual dollar amount to be debited or credited). If there are errors in the pre-note, the RDFI can send a Notification of Change (NOC) back to you letting you know the information you must correct or they can return the entry. RDFIs are not required to initiate NOCs. If the RDFI decides to return the entry rather than send an NOC, the Return Reason Code will let you know why the transaction could not be posted. An Originator that has originated a pre-note may initiate a subsequent entry to the Receiver's account as soon as the third banking day following the Settlement Date of the original pre-note entry. However, it is important to note if an Originator receives an NOC or returned entry in response to a pre-note, the Originator must not transmit subsequent entries until it has resolved the reason for the return or made the necessary correction requested by the NOC.

**What can an Originator do if an ACH entry or ACH file was initiated in error?**

Once an entry or file of entries has been transmitted into the ACH Network, it cannot be recalled, but an erroneous or duplicate file may be reversed. An erroneous entry/file is one in which the information contained in the entry/file:

- is a duplicate of an entry/file previously initiated by the Originator;
- orders payment to or from a Receiver different than the Receiver intended to be credited or debited;
- orders payment in a dollar amount different than was intended by the Originator;
- is a credit PPD entry in which the funds are related to the Receiver's employment, the amount was paid by check at or prior to the Receiver's separation from employment, and the PPD credit was transmitted prior to the delivery of the check; or
- orders payment of a debit entry on a date earlier than Originator intended or payment of a credit entry later than intended to be credited by the Originator (new as of **June 30, 2021**).

When an entry/file is reversed due to duplication or an error, the Originator or ODFI must:

- initiate the reversing file that it is made available to the RDFI within 5 banking days after the settlement date of the erroneous entry/file;
- place the word "REVERSAL" in the company entry description field of each Company/Batch Header Record;
- ensure the Company ID/Originator ID, SEC code, and the amount fields are identical to the original entry. The name of the Originator must reflect the same Originator identified in the erroneous entry to which the reversal relates. Minor variations are allowed for accounting or tracking purposes as long as the name remains readily recognizable to the receiver.
- transmit the file to the ACH Operator within 24 hours of discovery of the error; and
- initiate a correcting file with the reversing file, if applicable.

The Originator must make a reasonable attempt to notify the Receiver (i.e. mail, email, telephone, fax, etc.) of and the reason for the reversing entry no later than the settlement date of the reversing entry. This will ensure the Receiver is made aware of the reversal activity prior to receipt of their periodic statement.

An ODFI that initiates a reversing or correcting file shall indemnify each participating financial institution and ACH Operator from and against any and all claims, demands, losses, liabilities and expenses, including attorneys' fees and costs, that result directly or indirectly from the debiting or crediting of any entry to the receiver's account. As such, reversals should be done with caution.

If you discover a potential error with an entry or file, contact your representative at the ODFI and they will either initiate the reversal or walk you through the required procedures and formatting requirements.

**What is an ACH return?**

An ACH return is an entry that the RDFI is unable to post for a reason defined by NACHA (see common return reason codes below). The RDFI must initiate the return in time for your ODFI to receive it by opening of business on the second banking day following the settlement date of the original entry. This is often referred to as the "24-hour return deadline." The RDFI may return some entries beyond this deadline; however, your ODFI must inform you of all returns promptly. The return will include a code that describes the reason for the return.

<b>Return Reason Code</b>	<b>Description</b>	<b>Originator Action</b>
R01	Insufficient Funds	Originator may initiate a new ACH entry within 180 days of original settlement date (max of two additional attempts)
R02	Account Closed	Originator must stop initiation of entries. Must obtain a new authorization from Receiver for a different account.
R03	No Account/Unable to Locate	Originator must stop initiation of entries and contact Receiver for correct account information.
R04	Invalid Account Number Structure	Originator must stop initiation of entries and contact Receiver for correct account information.
R05	Unauthorized Debit to Consumer Account Using Corporate SEC Code	Originator must stop initiation of entries.
R06	Returned per ODFI's Request	ODFI has requested RDFI to return an entry (optional to RDFI). Originator should contact the ODFI should they need to request an RDFI to return an entry.
R07	Authorization Revoked by Customer	Originator must stop initiation of entries. Must obtain a new authorization to initiate entries.
R08	Payment Stopped	Originator must contact Receiver to identify reason for stop payment. Stop payment can be for one or more debit entries. May need new authorization to initiate entries.
R09	Uncollected Funds	Originator may initiate a new ACH entry within 180 days of original settlement date (max of two additional attempts)

R10	Customer Advises Originator is Not Known to Receiver and/or is Not Authorized	Originator must stop initiation of entries. Must obtain a new authorization to initiate entries.
R11	Customer Advises Entry Not in Accordance with Terms of Authorization	Originator may correct underlying error, if possible, and submit new Entry (no new authorization required).
R16	Account Frozen/Entry Returned Per OFAC Instruction	Originator must stop initiation of entries.
R20	Non Transaction Account	Originator must stop initiation of entries.
R23	Credit Entry Refused by Receiver	Originator must obtain a new authorization to initiate entries.
R24	Duplicate Entry	Originator should accept return.
R29	Corporate Customer Advises Not Authorized	Originator must stop initiation of entries. Must obtain a new authorization to initiate entries.

### **Reinitiation of Return Entries**

An Originator may reinitiate an entry, other than an RCK entry that was previously returned, only if the entry was returned for insufficient or uncollected funds, the entry was returned for stopped payment and reinitiation has been separately authorized by the Receiver after the Originator received the return entry or the Originator has taken corrective action to remedy the reason for the return.

The Originator must reinitiate the entry within 180 days after the settlement date of the original entry. And, the Originator may reinitiate an entry that has been returned for insufficient or uncollected funds a maximum of two times following the return of the original entry.

The reinitiated entries must be submitted as a separate batch that contains the word “RETRY PYMT” in the Company Entry Description field of the Company/Batch Header Record. For any reinitiated entry, the description “RETRY PYMT” must replace the original content of the Company Entry Description field transmitted in the original entry, including content otherwise required by the Rules.

If a return fee is charged by the Originator to the Receiver for a debit entry that was returned for insufficient or uncollected funds, the Originator is required to provide notice to the Receiver that a return fee will be assessed if an item is returned unpaid. The Originator must use the Standard Entry Class Code “PPD” and must submit return fee entries as a separate batch that contains the words “RETURN FEE” in the Company Entry Description field of the Company/Batch Header Record.

### **What is a Notification of Change (NOC)?**

An NOC is a non-monetary entry transmitted by an RDFI to identify incorrect information contained within an entry and also provides correct information to be used on future entries. NOC’s provide a means for an RDFI to post an entry to the Receiver’s account but also notifies your company of changes that must be made. When an RDFI transmits an NOC, they warrant the information contained within the NOC is correct. Upon receipt of an NOC, the ODFI must notify you of the information that must be changed within 2 banking days. You must make the requested change(s) within 6 banking days or prior to initiation of another ACH entry, whichever is later. Some common NOC codes are below:

<b>Change Code</b>	<b>Description</b>
C01	Incorrect Account Number or is formatted incorrectly

C02	Incorrect Routing Number due to merger or consolidation
C05	Incorrect Transaction Code - The account number contained in the entry is a checking account but the transaction code is for a savings account or vice versa.
C06	Incorrect Account Number and Transaction Code

**Standard Entry Class (SEC) Codes**

SEC codes are payment types used by Originators to identify ACH debits or credits. Commonly used SEC codes are as follows:

<b>SEC Code</b>	<b>Description</b>	<b>Application Use</b>	<b>Authorization Requirements</b>
CCD	Corporate Credit or Debit	Provides a way for companies to receive or send ACH payments from or to other companies. Companies that need to transmit remittance data with the CCD entry (such as invoice or purchase order number) may add an addenda record to carry the payment related information.	The Rules do not require the CCD/CTX authorization to be a specific form. The Rules require the Originator and Receiver to have an agreement that binds the Receiver to the Rules. This agreement should contain the authorization requirements and procedures as determined by the parties.
CTX	Corporate Trade Exchange	This also provides a way for companies to receive or send ACH payments from or to other companies generally to pay for goods and services. The CTX format supports the transfer of extensive addenda records – up to a maximum of 9,999 records each carrying 80 characters of payment related data.	Same as CCD.
PPD	Prearranged Payment or Deposit	This code is used for a credit or debit entry originated by an organization to a consumer’s account. It can be a single or recurring entry. PPD transactions are widely used for direct deposit of payroll and direct payments. Direct payments provides the ability to collect funds from a consumer’s account. PPD can also be used for a return entry fee. If a company collects a fee for a debit entry (ACH or check) that is returned NSF or uncollected funds, the company can use PPD as long as proper notice is provided.	For PPD debits, the authorization must be in writing, be readily identifiable as an ACH authorization, have clear and readily understandable terms, provide that the Receiver may revoke the authorization by notifying the Originator in the manner specified in the authorization, and be either signed or similarly authenticated by the consumer. Iowa Law requires written authorization for PPD payroll deposits. For other credit entries, the authorization may be in writing or it may be

			obtained orally or by other non-written means.
WEB	Internet-Initiated/Mobile Entry	Can be a debit or credit and can be a single or recurring entry. A WEB entry provides companies the opportunity to initiate a debit entry to consumer accounts for the purchase of goods or services pursuant to an authorization obtained of the Internet or Wireless Network.	Debit WEB entries require authorization that is communicated from the Receiver via the Internet or Wireless Network. WEB is also appropriate if the authorization was obtained in person but the Receiver sends a text message to communicate when to initiate the debit.

**Record Retention**

The Originator must retain the original or reproductive copy of each written authorization of the Receiver, or a readily and accurately reproducible record evidencing any other form of authorization, for two years from the termination or revocation of the authorization, and must be able to provide the ODFI with an accurate copy or other accurate record to the RDFI within ten banking days without charge.

**WEB – Risk Management and Annual Audit**

The best way Originators can minimize the potential for fraudulent Internet/Mobile initiated ACH transactions is to employ robust authentication methods to verify the identity of the Receiver before accepting ACH debit authorizations online. The more robust the authentication, the less likely a transaction will be fraudulent and returned as unauthorized. Since the Originator may ultimately be responsible for unauthorized or fraudulent ACH transactions when those transactions are returned, it is beneficial to employ adequate levels of authentication into the online ACH payments process.

Originators who initiate WEB (Internet Initiated) debit entries are required to perform account validation screening as part of a “commercially reasonable fraudulent transaction detection system.” This process is intended to validate the account to be debited for the first use of such account number and for any subsequent change(s) to the account number. A common method used to validate account information is to initiate a pre-notification. .

Compromised data not only affects the Receiver, it can also damage the Originator’s reputation. To ensure an Originator of WEB debits has adequate procedures in place to protect Receiver financial information, Nacha Rules require Originators to conduct an annual data security audit. The audit must review security practices to ensure they include adequate levels of physical security to protect against theft, tampering, or damage; administrative, technical, and physical access controls to protect against unauthorized access and use; and network security to ensure secure capture, transmission, storage, distribution and destruction of financial information. The ODFI may ask for a copy of your audit at any time.

**Information Security**

NACHA Rules establish data security requirements for all ACH transactions transmitted or exchanged via an Unsecured Electronic Network (UEN). An example of a UEN is the Internet. Banking information, which includes routing numbers, account numbers, etc. must be (1) encrypted, or (2) transmitted via a secure session using commercially reasonable security technology. The concept of “commercially



reasonable” means that a party, given the facts of a specific transaction, acted in a way that a reasonable person in similar circumstances would have acted. Ultimately, the Originator must implement procedures to protect the security and integrity of ACH data throughout its lifecycle. The Originator must establish, implement, and update security policies, procedures, and systems related to the initiation, processing and storage of protected information (non-public personal information, including financial information, of a natural person used to create, or contained within an entry and any related addenda record).

Each Non-Consumer Originator or Third-Party Sender whose ACH origination or transmission volume exceeds 6 million entries annually must, by June 30<sup>th</sup> of the following year, protect account numbers used in the initiation of entries by rendering them unreadable when stored electronically. On **June 30, 2022**, this requirement applies to those Originators or Third-Party Senders with ACH volume of 2 million transactions or greater annually.

### **Corporate Account Takeover (CATO)**

CATO is a type of business identity theft in which a criminal gains access to a business’ finances to make unauthorized transactions, including transferring funds, creating and adding new fake employees to a payroll file and stealing customer information. Cyber thieves target employees through phishing (fraudulent attempt to obtain confidential information such as usernames and passwords for malicious reasons), phone calls, e-mails, and sometimes through social networks.

NACHA released an ACH Bulletin on December 2, 2009, that summarizes CATO and what businesses can do to prevent it. <https://www.nacha.org/news/corporate-account-takeovers-can-lead-fraudulent-transactions>.

As noted within the Bulletin, the top things a business can do is to implement procedures such as dual control to initiate ACH payments, ensure anti-virus security software for all computers and laptops are up-to-date, restrict functions for computers and laptops (such as general WEB browsing, social networking, etc.), monitor and reconcile accounts daily and utilize alerts to detect unusual activity.

### **Meaningful Modernization**

Nacha implemented amendments comprising Meaningful Modernization that were expected to improve and simplify the ACH user experience by facilitating the adoption of new technologies and channels for the authorization and initiation of ACH payments, reducing barriers to use of the ACH Network and providing clarity and consistency around the ACH authorization process.

**Standing Authorizations** - Part of the changes included use of a standing authorization for consumer ACH debits. A standing authorization is an advance authorization by a consumer for future debits at various intervals. Future debits may be initiated by the consumer through a future action. This differs from recurring payments as they occur at regular intervals and requires no additional action by the consumer and a single entry that is a one-time payment. The new authorization is a hybrid and allows businesses and consumers to make more flexible payment arrangements that are on-going and require action by the consumer in the future. If you are interested in this product, please contact us for additional information.

**Oral Authorizations** - Prior to this amendment, the Rules did not provide for oral authorization outside of a telephone call. With the amendment, the Rules allow broader use of oral authorizations to include verbal interactions and voice-related technologies. If you are interested in learning more, please contact us.

**Written Authorizations** - As referenced above, the authorization for PPD debits must be in writing. At a minimum, they must include the following:

- language detailing if the authorization is for a single entry or recurring entries;
- the amount of the entry(ies) or reference to the method of determining the amount;
- the timing (including start date), number and/or frequency of the entries;
- the Receiver's name or identity;
- the account number to be debited;
- the date of the Receiver's authorization; and
- language instructing the Receiver how to revoke the authorization directly with the Originator (including timing and manner by which the Receiver must communicate the revocation to the Originator.) For an authorization for a single entry scheduled in advance, the revocation must provide the Originator a reasonable opportunity to act on the revocation prior to initiating the entry.

Originators must review and update, if necessary, the current authorization used for debit entries to ensure it includes the minimum data elements. Any new or updated authorization must conform to the new minimum requirements. Originators are not required to go back and obtain new authorizations for existing receivers.

### **Third-Party Sender Responsibilities**

Nacha Rules require all Third-Party Senders to conduct an annual audit of its compliance with the Rules no later than December 31<sup>st</sup> of each year. In addition, as of **September 30, 2022**, a Third-Party Sender must conduct its own risk assessment and implement a risk management program based on its risk assessment. There will be a six month grace period to March 31, 2023, to allow Third-Party Senders that have not conducted a risk assessment adequate time to do so.

<b>Document Revision History</b>	
<b>January 2020</b>	<i>Differentiating Unauthorized Return Reason Codes for R10 and R11, effective 3/20/20</i>
	<i>Supplementing Data Security Requirements effective June 30, 2020</i>
	<i>Added new same-day processing window</i>
<b>April 2020</b>	<i>Extended effective date by one year for Supplementing Data Security Requirements per Nacha Operations Bulletin #4-2020.</i>
<b>July 2020</b>	<i>Added information process for initiating a reversal of an ACH entry/file.</i>
<b>September 2020</b>	<i>Changed Federal Reserve implementation date to facilitate adoption of a third same-day ACH processing and settlement window from March 19, 2021 to March 8, 2021</i>
<b>October 2020</b>	<i>Per ACH Operations Bulletin #7-2020, updated to reflect deferred effective dates. Specifically, Nacha will not enforce rule for up to one year related to the Supplemental Fraud Detection for WEB entries and/or Supplemental ACH Data Security for entities working in good faith toward compliance.</i>
<b>January 2021</b>	<i>Added third Same Day ACH processing window timing and requirements; clarified what an Originator is required to do if ACH file was originated in error, and added requirements for written authorizations beginning September 17, 2021.</i>
<b>September 2021</b>	<i>Added formatting requirements for reversals and a section on reinitiation of entries and charging return fees. Added section for Meaningful Modernization changes.</i>
<b>January 2022</b>	<i>Modified same-day transaction limit. Effective 3/18/22, same-day transaction limit will increase to \$1MM. Also updated same-day section to reflect the three clearing windows. Added annual security audit requirement for Originators of WEB debits and requirement to perform an annual audit and risk assessment for Third-Party Senders.</i>