NOTICE OF AMENDMENT
TO THE
2018 NACHA OPERATING RULES

November 19, 2018
SUPPLEMENT #2-2018

1. ACH Quality and Risk Management Topics
   Effective Dates: June 21, 2019
   January 1, 2020
   June 30, 2020
   June 30, 2021

2. ACH Rules Compliance Audit Requirements
   Effective Date: January 1, 2019

3. Minor Topics Rule Changes
   Effective Date: January 1, 2019
Supplement #2-2018 to the
NACHA Operating Rules

On November 2, 2018, the NACHA Voting Membership approved nine amendments to the NACHA Operating Rules (Rules). The amendments encompass the following areas:

ACH Quality and Risk Management Topics

• Return for Questionable Transaction (effective June 21, 2019)
• Supplementing Fraud Detection Standards for WEB Debits (effective January 1, 2020); and
• Supplementing Data Security Requirements (effective June 30, 2020 and June 30, 2021)

ACH Rules Compliance Audit Requirement (effective January 1, 2019)

Minor Topics Rules Changes (effective January 1, 2019)

This supplement provides ACH Network participants with a summary of the key components of each change, along with details regarding the technical changes to Rules language. To ensure compliance with the most current rules, this Supplement should be used in conjunction with the 2018 edition of the Rules.
ACH Quality and Risk Management Topics

The three amendments comprising the ACH Quality and Risk Management Topics are designed to enhance quality and improve risk management within the ACH Network by (1) allowing RDFIs to indicate within a return that the original transaction was questionable or part of anomalous activity; (2) supplementing the fraud detection standard for Internet-initiated (WEB) debits; and (3) supplementing the existing account information security requirements for large-volume Originators and Third-Parties.

RETURN FOR QUESTIONABLE TRANSACTION

Summary

Currently, an RDFI may return an ACH entry for any reason, except as otherwise provided in Article Three, Subsection 3.8.1 (Restrictions on RDFI’s Right to Transmit Return Entries) of the NACHA Operating Rules. Defined return reasons include, among others, entries that are deemed unauthorized by the Receiver or those with an invalid account number or no account at the RDFI. If an RDFI wants to return an entry that does not have a valid account number and appears to be questionable, suspicious, or anomalous in some way, the RDFI does not have a defined return reason code to communicate this information to the ODFI and Originator. Existing NACHA guidance allows RDFIs to use R17 to return questionable transactions that would otherwise be returned using a standard administrative return reason (R03 – No Account/Unable to Locate Account or R04 – Invalid Account Number Structure). However, none of these options enable an ODFI or its Originator to differentiate questionable transactions from other routine account number errors.

Under the Return for Questionable Transaction rule, RDFIs will be able (but not required) to use Return Reason Code R17 – File Record Edit Criteria to indicate that the RDFI believes the entry containing invalid account information was initiated under questionable circumstances. This use of R17 will be optional at the discretion of the RDFI. Those RDFIs that elect to use R17 for this purpose will be required to use the description ‘QUESTIONABLE’ in the Addenda Information field of the return. This description in an R17 return will differentiate returns that appear to be suspicious to the RDFI from those due to routine account number issues.

NOTE: The existing NACHA-coordinated opt-in programs with federal and state tax agencies that allow RDFIs to return questionable tax refund ACH credits using R17 will continue unchanged. These programs will not be impacted by this additional optional use of the R17 Return Reason Code. R17 will also continue to be used in its standard form for returns involving required field errors.

Impact to Participants

ODFIs: ODFIs may see an increase in R17 returns. ODFIs and their Originators should be aware of the new messaging conveyed via the R17 Return Reason Code and may wish to review such returns more closely.

RDFIs: RDFIs that choose to use R17 to flag questionable/suspicious entries may experience an increase in manual processing of those returns. RDFIs wishing to use R17 for this purpose will need to ensure their software systems allow them to include descriptive information within the Addenda Information field of the return.

Effective Date

The rule will become effective on June 21, 2019.
Technical Summary
Below is a summary of the impact of the Return for Questionable Transaction rule on the NACHA Operating Rules. Sections of the Rules that are affected by this amendment are also included and reflect rule language as it will read upon implementation in highlighted, italicized text.

- **Appendix Three, Subpart 3.2.2 (Glossary of Data Elements)** – Amends the Addenda Information field description to add the requirement to include the descriptor “QUESTIONABLE” when using R17 for questionable returns

- **Appendix Four, Part 4.2 (Table of Return Reason Codes)** – Adds information to R17 to allow use for questionable returns

*As approved November 2, 2018, effective June 21, 2019, the Rules will be amended as follows for changes related to Return for Questionable Transaction:*

**APPENDIX THREE**

ACH Record Format Specifications

**PART 3.2 Glossary of ACH Record Format Data Elements**

**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 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 Questionable Circumstances).

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

Please see the changes to the description of Return Reason Code R17 in the attached Table of Return Reason Codes on the following page.
### 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>
</table>
| R16  | Account Frozen/Entry Returned Per OFAC Instruction | (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. | RDFI or Gateway | Return | Consumer or Non-Consumer | * 2 Banking Days | No | Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries. 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. 
(1) File(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. | |
| R17  | File Record Edit Criteria | Field(s) cannot be processed by RDFI | RDFI | Return | Consumer or Non-Consumer | * 2 Banking Days | No | Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries. Appendix Three, Part 3.2 - Glossary of ACH Record Format Specifications | | 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. 
(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. The RDFI must insert "QUESTIONABLE" within the first twelve positions of the Addenda Information field. The RDFI may include additional explanatory information within the remaining positions of this field. | |
SUPPLEMENTING FRAUD DETECTION STANDARDS FOR WEB DEBITS

Summary
Under existing rules, Originators of WEB debit entries must use a “commercially reasonable fraudulent transaction detection system” to screen WEB debits for fraud. This requirement is intended to help prevent fraudulent payments from being introduced into the ACH Network, and to help protect RDFIs from posting fraudulent or otherwise incorrect or unauthorized payments.

With the implementation of the Supplementing Fraud Detection Standards for WEB Debits rule, the current screening requirement will be enhanced to make it explicit that “account validation” is part of a “commercially reasonable fraudulent transaction detection system.” The supplemental requirement will apply to the first use of an account number, or changes to the account number. For existing WEB debit authorizations, the rule will be effective on a going forward basis. Originators will have to perform account validations as there are updates to account numbers in existing authorizations.

Impact to Participants
Originators: Originators of WEB debits may need to re-tool their ACH fraud detection systems to comply with the rule. Those Originators of WEB debits that do not currently perform any fraud detection will need to implement a system to do so.

RDFIs: RDFIs may receive a greater volume of ACH prenotification, micro-transactions, or other account validation requests.

Effective Date
The rule will become effective on January 1, 2020.

Technical Summary
Below is a summary of the impact of the Supplementing Fraud Detection Standards for WEB Debits rule on the NACHA Operating Rules. Sections of the Rules that are affected by this amendment are also included and reflect rule language as it will read upon implementation in highlighted, italicized text.

• Article Two, Subsection 2.5.17.4 (Additional ODFI Warranties for Debit WEB Entries) – Adds text to make explicit that a fraudulent transaction detection system must, at a minimum, validate the account number of the account to be debited

As approved November 2, 2018, effective January 1, 2020, the Rules will be amended as follows for changes related to Supplementing Fraud Detection Standards for WEB Debits:

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.

(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.

**SUPPLEMENTING DATA SECURITY REQUIREMENTS**

*Summary*

The existing ACH Security Framework requires Financial Institutions, Originators, Third-Party Service Providers, and Third-Party Senders to establish, implement and update security policies, procedures and systems related to the initiation, processing and storage of ACH entries. These policies, procedures, and systems must protect the confidentiality and integrity of Protected Information; protect against anticipated threats or hazards to the security or integrity of Protected Information; and protect against unauthorized use of Protected Information that could result in substantial harm to a natural person.

The Supplementing Data Security Requirements rule expands the existing ACH Security Framework to explicitly require large, non-financial institution Originators, Third-Party Service Providers, and Third-Party Senders to protect account numbers used in the initiation of ACH entries by rendering them unreadable when stored electronically. The rule aligns with existing language contained in PCI requirements, thus industry participants are expected to be reasonably familiar with the manner and intent of the requirement.

The rule applies only to account numbers collected for or used in ACH transactions and does not apply to the storage of paper authorizations. The rule also does not apply to depository financial institutions when acting as internal Originators, as they are covered by existing FFIEC and similar data security requirements and regulations.

Implementation of the Supplementing Data Security Requirements rule will begin with the largest Originators, Third-Party Service Providers, and Third-Party Senders and will initially apply to those with ACH volume of 6 million transactions or greater annually. A second phase will apply to those with ACH volume of 2 million transactions or greater annually.

*Impact to Participants*

**ODFIs:** ODFIs will need to inform their Originators, Third-Party Service Providers and Third-Party Senders of their direct compliance obligation with respect to the rule.

**Originators, Third-Party Service Providers, and Third-Party Senders:** Any of these ACH Network participants that are not currently compliant with the rule will need to implement changes to bring their systems into compliance.
**Effective Date**

The rule will be implemented in two phases:

- **Phase 1:** Rules language will become effective on June 30, 2020. Any Originator, Third-Party Service Provider, or Third-Party Sender that originates 6 million or more ACH transactions in calendar year 2019 will need to be compliant by June 30, 2020.

- **Phase 2:** Rules language will become effective on June 30, 2021. Any Originator, Third-Party Service Provider, or Third-Party Sender that originates 2 million or more ACH transactions in calendar year 2020 will need to be compliant by June 30, 2021.

Going forward after calendar year 2020, any Originator, Third-Party Service Provider, or Third-Party Sender that originates 2 million or more ACH transactions in any calendar year will need to be compliant with the rule by June 30 of the following calendar year.

**Technical Summary**

Below is a summary of the impact of the Supplementing Data Security Requirements rule on the NACHA Operating Rules. Sections of the Rules that are affected by this amendment are also included and reflect rule language as it will read upon implementation in highlighted, italicized text.

- **Article One, Section 1.6 (Security Requirements)** – Adds text to require Originators, Third-Party Service Providers, and Third-Party Senders to render unreadable account numbers used for ACH initiation when those numbers are stored electronically.

As approved November 2, 2018, effective June 30, 2020, the Rules will be amended as follows for changes related to Supplementing Data Security Requirements:

**ARTICLE ONE**

**General Rules**

**SECTION 1.6 Security Requirements**

Each Non-Consumer Originator, Participating DFI, and Third-Party Service Provider 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:

*Each Non-Consumer Originator, Participating DFI, 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 not a Participating DFI, each Third-Party Service Provider, and each Third-Party Sender, whose ACH Origination or Transmission volume exceeds 6 million\textsuperscript{1} Entries annually must, by June 30 of the following year, protect DFI Account Numbers used in the initiation of Entries by rendering them unreadable when stored electronically.

\textsuperscript{1}Note: Effective June 30, 2021, the threshold for these requirements will be reduced to 2 million Entries annually.
ACH Rules Compliance Audit Requirements

SUMMARY
The ACH Rules Compliance Audit Requirements rule will consolidate all requirements for an annual rules compliance audit within one section of the NACHA Operating Rules. Presently, the general obligation for Participating Depository Financial Institutions (and certain Third-Party Service Providers and Third-Party Senders) to conduct an audit is located within Article One, Section 1.2.2 (Audits of Rules Compliance). However, the details pertaining to that audit obligation are separately located within Appendix Eight (Rules Compliance Audit Requirements). This amendment retains and combines the core audit obligation with the general administrative requirements for completion of such an audit into Article One of the Rules.

The new rule does not change the requirement to conduct a rules compliance audit annually, but rather changes the structure of the audit requirement within the Rules. The rule will consolidate the annual rules compliance audit requirements into one section. The rule will also remove redundant material, including the recapitulation of many rules currently in Appendix Eight, as this Appendix will be eliminated from the Rules.

IMPACT TO PARTICIPANTS
ODFIs, Third-Party Service Providers, Third-Party Senders, and RDFIs: Any of these ACH Network participants that rely exclusively on Appendix Eight as a checklist for conducting their audits may need to modify their methodologies for conducting audits to ensure they are auditing on all relevant rules.

EFFECTIVE DATE
The Rules language changes are effective January 1, 2019 and will apply to audits required to be conducted by December 31, 2019.

TECHNICAL SUMMARY
Below is a summary of the impact of the ACH Rules Compliance Audit Requirements rule on the NACHA Operating Rules. Sections of the Rules that are affected by this amendment are also included and reflect rule language as it will read upon implementation in highlighted, italicized text.

• Article One, Section 1.2.2 (Audits of Rules Compliance) – Adds a new subsection to consolidate the core audit requirements described in Appendix Eight under the general obligation of Originators, Third-Party Service Providers, and Third-Party Senders to conduct a rules compliance audit.

• Appendix Eight (Rule Compliance Audit Requirements) This Appendix will be eliminated in its entirety from the Rules.

As approved November 2, 2018, effective January 1, 2019, the Rules will be amended as follows for changes related to ACH Rules Compliance Audit Requirements:
ARTICLE ONE

General Rules

SUBSECTION 1.2.2 Audits of Rules Compliance

A Participating DFI must annually conduct, or have conducted, an audit of its compliance with these Rules in accordance with Appendix Eight (Rule Compliance Audit Requirements). A Third-Party Service Provider or a Third-Party Sender that has agreed with a Participating DFI to process Entries must annually conduct, or have conducted, an audit of its compliance with these Rules in accordance with Appendix Eight (Rule Compliance Audit Requirements).

SUBSECTION 1.2.2 Audits of Rules Compliance

SUBSECTION 1.2.2.1 General Audit Requirements (new subsection)

A Participating DFI must annually conduct, or have conducted, an audit of its compliance with these Rules. A Third-Party Service Provider or a Third-Party Sender that has agreed with a Participating DFI to process Entries must annually conduct, or have conducted, an audit of its compliance with these Rules. An annual audit must be conducted under these Rule Compliance Audit Requirements no later than December 31 of each year.

This requirement to conduct an audit relates solely to compliance with these Rules and is not limited to compliance with any specific rule or group of rules. This audit obligation does not address other audit considerations with regard to a financial institution’s ACH policies, procedures, or regulatory compliance.

For a Third-Party Service Provider, these audit requirements apply only to the functions of ACH processing that it performs on behalf of a Participating DFI or a Third-Party Sender. For a Third-Party Sender, these audit requirements apply to its performance of any obligations of an ODFI under these Rules. References within these Rules to an audit of an ODFI’s or RDFI’s performance therefore also apply to a Third-Party Service Provider or Third-Party Sender acting in the capacities described above.

An audit of compliance with these Rules must be performed under the direction of the audit committee, audit manager, senior level officer, or independent (external) examiner or auditor of the Participating DFI, Third-Party Service Provider, or Third-Party Sender.

SUBSECTION 1.2.2.2 Proof of Completion of Audit (new subsection)

The Participating DFI, Third-Party Service Provider, or Third-Party Sender must retain proof that it has completed an audit of compliance in accordance with these Rules. Documentation supporting the completion of an audit must be retained for a period of six years from the date of the audit.

Upon receipt of the National Association’s request, a Participating DFI must provide to the National Association, within ten (10) banking days, proof that the Participating DFI and/or any requested Third-Party Service Provider(s) or Third-Party Sender(s) have completed audits of compliance in accordance with these Rules.

A Third-Party Service Provider or a Third-Party Sender must provide to its Participating DFI proof of completion of its audit for purposes of the Participating DFI’s compliance with a request from the National Association.

Failure of a Participating DFI to provide proof of completion of its own audit, or its Third-Party Service Provider’s and/or Third-Party Sender’s audit, according to procedures determined by the National Association, would constitute a material violation of these Rules.

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Association may be considered a Class 2 rule violation pursuant to Appendix Ten, Subpart 10.4.7.4 (Class 2 Rules Violation).

APPENDIX EIGHT
Rules Compliance Audit Requirements

This Appendix will be removed in its entirety from the Rules.
Minor Rules Topics

SUMMARY
The Minor Rules Topics amendments change five specific areas of the NACHA Operating Rules (Rules) to address minor issues. Minor changes to the Rules have little to no impact on ACH participants and no significant processing or financial impact. These amendments address changes related to:

(1) ACH Operator Edits;
(2) Clarification on TEL Authorization Requirements;
(3) Clarification on RDFI Obligation to Return Credit Entry Declined by Receiver;
(4) Clarification on Reinitiation of Return Entries; and
(5) Clarification on RDFI Liability upon Receipt of a Written Demand for Payment.

Each of these rules changes will become effective on January 1, 2019.

KEY COMPONENTS OF RULE AMENDMENTS

1. ACH Operator Edits
This rule aligns the Rules with current ACH Operator file editing practices.

The ACH Operator Edits amendment modifies edit criteria to permit ACH Operators to “pend” files as an alternative to rejecting files under various error conditions, primarily related to duplicate file detection. The rule incorporates language to clarify that ACH Operator edits defined within Appendix Two of the Rules represent minimum standards required by the Rules, and that additional edits can be adopted by each ACH Operator as part of its service agreement with its customers.

2. Clarification of TEL Authorization Requirements
This amendment clarifies that the general rules governing the form of authorization for all consumer debits apply to the authorization of TEL entries, including the obligation to include revocation language. Only ARC, BOC, POP, and RCK entries are explicitly exempted from the requirement to include revocation language in the authorization.

The Clarification of TEL Authorization Requirements rule also incorporates a reference that TEL entries are consumer debits only, consistent with the language for other consumer debits.

3. Clarification of RDFI Obligation to Return Credit Entry Declined by Receiver
This rule change reflects existing practices regarding circumstances under which an RDFI is, or is not, obligated to return a credit entry that has been declined by a Receiver. The Clarification of RDFI Obligation to Return Credit Entry Declined by Receiver rule expressly identifies specific conditions under which the RDFI is excused from its obligation to return a credit:

- There are insufficient funds available to satisfy the return, including due to any third party lien or security interest.
- The return is prohibited by Legal Requirements.
- The RDFI itself has a claim against the proceeds of the credit entry, including by offset, lien, or security interest.

The rule change also modifies the Rules language to refer to an entry being “declined” (rather than “refused”) by the Receiver.
4. **Clarification on Reinitiation of Return Entries**

This amendment is an editorial change to the language of the general rule on Reinitated Entries to clarify the existing intent of the Rules that reinitiation is limited to 2 times.

5. **Clarification on RDFI Liability Upon Receipt of a Written Demand for Payment**

This amendment contains editorial changes regarding conditions under which an RDFI may return a Reclamation Entry or reject a Written Demand for Payment. These changes also clarify that an RDFI may reject a Written Demand for Payment only if it was not properly originated by the ODFI.

**IMPACT TO PARTICIPANTS**

*All Participants:* All ACH Network participants benefit from *Rules* language that is consistent and clear, and that takes established industry practices into consideration. Each of these Minor Rules Topics changes serves to improve overall ACH processing efficiency by enhancing or clarifying certain areas within the *Rules* that are troublesome or ambiguous to users. NACHA does not expect ACH Network participants to incur any substantial costs associated with the implementation of these changes.

**TECHNICAL SUMMARY**

On the following pages is a summary of the impact of the Minor Rules Topics changes on the *NACHA Operating Rules*. Sections of the *Rules* that are affected by these amendments are also included and reflect rule language as it will read upon implementation in highlighted, italicized text.
1. **ACH Operator Edits**

**APPENDIX TWO**

Specifications for Data Acceptance by ACH Operators

The data acceptance criteria below apply to Entries Transmitted by Sending Points or ACH Operators. The ACH Operator will reject a File, batch, or Entry that does not comply with these specifications.

The data acceptance criteria within this Appendix Two apply to Files, batches, or Entries Transmitted by Sending Points or ACH Operators. The ACH Operator will pend or Reject a File, batch, or Entry that does not comply with these specifications. For purposes of this Appendix Two only, the term “pend” means the placement of a File, batch, or Entry into an idle state during processing by the ACH Operator due to an error condition. A File, batch, or Entry placed in a pending status by the ACH Operator will await action to be released or Rejected based on instructions provided by the Sending Point.

The data acceptance criteria listed within this Appendix Two represent the minimum standards for review of ACH Files, batches, or Entries by an ACH Operator. An ACH Operator may employ additional edit criteria, in addition to those defined within this Appendix, to ensure quality standards for ACH Files, batches, or Entries based on terms established with their customers.

**PART 2.1 File Acknowledgment**

Each Originating ACH Operator generates an acknowledgment for every File Transmitted for processing. The acknowledgment is in the form of a message or report Transmitted or made available to the Sending Point electronically. The ACH Operator makes the acknowledgment available as soon as possible after the completion of the edits listed in Parts 2.3 (Automatic File Rejection Criteria), 2.4 (Automatic Batch or File Rejection Criteria), and 2.5 (Automatic Entry Detail Rejection Criteria) of this Appendix Two. At a minimum, the acknowledgment includes information from the following fields within the Sending Point’s File Header and File Control Records:

Each Originating ACH Operator generates an acknowledgment for every File Transmitted for processing. The acknowledgment is in the form of a message or report Transmitted or made available to the Sending Point electronically. The ACH Operator makes the acknowledgment available as soon as possible after the completion of the edits listed in Parts 2.3 (File Error Condition Criteria), 2.4 (Batch or File Error Condition Criteria), and 2.5 (Entry Detail Error Condition Criteria) of this Appendix Two. At a minimum, the acknowledgment includes information from the following fields within the Sending Point’s File Header and File Control Records:

(a) Immediate Origin;
(b) Immediate Origin Name (if available);
(c) File Creation Date;
(d) File Creation Time (if available);
(e) File ID Modifier;
(f) File Entry/Addenda Count;
(g) Total Debit Entry Dollar Amount in File;
(h) Total Credit Entry Dollar Amount in File; and
(i) File Batch Count.
The acknowledgment also contains the date and time the File was processed by the ACH Operator and, if the File was rejected, the reason for the rejection. If the File was not rejected, but one or more batches were rejected by the ACH Operator, the acknowledgment will also contain the following information about each rejected batch:

*The acknowledgment also contains the date and time the File was processed by the ACH Operator and identifies any error conditions that may exist within the File.*

*If the File was not Rejected by the ACH Operator, but one or more batches had an error condition, the acknowledgment will also contain the following information about each batch error condition:*

(j) Originating DFI Identification;
(k) Originating DFI Name (if available);
(l) Company Name;
(m) Company Identification;
(n) Batch Number;
(o) Effective Entry Date;
(p) Batch Entry/Addenda Count;
(q) Total Debit Dollar Amount;
(r) Total Credit Dollar Amount; and
(s) Reason for Batch Rejection.

### PART 2.2 Originator Status Code Review

Each Originating ACH Operator reviews each batch of Entries it receives to ensure that the appropriate status code pertaining to the Originator (the “Originator Status Code”) is included in accordance with Appendix Three (ACH Record Format Specifications). If a batch of Entries contains an incorrect Originator Status Code or contains no Originator Status Code, the ACH Operator either Rejects the batch or inserts the correct Originator Status Code.

### PART 2.3 Automatic File Rejection Criteria

#### PART 2.3 File Error Condition Criteria

The ACH Operator will always reject the entire File if any of the following error conditions exists:

*The ACH Operator will either pend or Reject the entire File if any of the following error conditions exists:*

- The File cannot be successfully read, e.g., data read failures, improper block size, presence of invalid header labels, hardware/software error checks indicated.
- The File contains any “undefined” record type.
- The File Header Record does not contain the number of a valid Sending Point or ACH Operator (as defined on the ACH Operator routing table file).
- The File is “out-of-balance,” i.e., one or more of the following conditions exist:
  - the summation of the counts, hash totals, and total dollars on Company/Batch Control Records does not agree with the File Control Record.
– the actual number of blocks or batches in the File does not agree with the File Control Record counts.

- Mandatory fields in the File Header Record are not valid:

  – File ID Modifier is not uppercase A-Z or 0-9.
  – Record size is not (094).
  – Blocking Factor is not (10).
  – Format Code is not (1).

- The sequence of records in the File is incorrect.

- The Immediate Origin, File Creation Date, File Creation Time, and File ID Modifier are equal to that of a previously accepted file.

  • The Immediate Origin, File Creation Date, File Creation Time, and File ID Modifier are equal to that of a file previously accepted by the ACH Operator within at least four (4) business days prior to the date of submission.

The ACH Operator may also pend or Reject the entire File if any additional error conditions, as agreed between ACH Operator and its customer, exist within the File.

PART 2.4 Automatic Batch or File Rejection Criteria

PART 2.4 Batch or File Error Condition Criteria

A Sending Point must choose either a batch level reject option or a File level reject option for any batch(es) within the File that meets one or more of the error conditions defined below. If the Sending Point chooses the File level reject option, the ACH Operator will reject the entire File containing the erroneous batch(es). If the Sending Point chooses the batch level reject option, those specific batches with an erroneous condition will be rejected, but the remaining batches within the File will be accepted and processed by the ACH Operator.

The ACH Operator will reject a batch or the entire File, depending on the reject option selected, if any batch meets any of the following error conditions:

Based on instructions provided to the ACH Operator by a Sending Point, the ACH Operator will either pend or Reject the entire File or any batch(es) meeting one or more of the error conditions identified below. If the Sending Point chooses the File level option, the ACH Operator will pend or Reject the entire File containing the erroneous batch(es). If the Sending Point chooses the batch level option, the ACH Operator will pend or Reject those specific batches with an error condition, but will accept and process the remaining batches within the File.

- The batch contains invalid characters (i.e., characters not specified in Appendix One, ACH File Exchange Specifications).
- Except for Files coming from another ACH Operator, the ODFI Identification in the Company/Batch Header Record is not the routing number of a valid ODFI.
- The Service Class Code in a Company/Batch Header Record is not a valid code.
- The Trace Numbers on the File are not in ascending sequence within a batch.
- The Transaction Code in an Entry Detail Record is invalid.
- The ODFI of a TRC/TRX batch is not a participant in a check truncation program.
• The Amount field in an Entry Detail Record is non-numeric.
• The sequence of records in the batch is incorrect.
• The batch is “out of balance,” i.e., the counts, hash totals, or dollars in the Company/Batch Control Records do not agree with the summation of the Entries for the batch.
• The Company Name is all spaces or all zeros.
• The Company Entry Description is all spaces or all zeros.
• The Company Identification is all spaces or all zeros.
• The Originator Status Code is not equal to “2” for DNE if the Transaction Code is 23 or 33.
• The Standard Entry Class Code in the Company/Batch Header Record is not a valid code.
• The Service Class Code in the Company/Batch Control Record is not the same as that in the Company/Batch Header Record.
• The first eight positions of the Trace Number in an Entry Detail Record are not the same as the ODFI Routing Number in the corresponding (immediately preceding) Company/Batch Header Record.
• The Transaction Code in an Entry Detail Record is not valid for the Service Class Code in the Company/Batch Header Record. Either a debit Transaction Code is in a credit batch, or a credit Transaction Code is in a debit batch.
• The Transaction Code in an Entry Detail Record is not valid for the Standard Entry Class Code in the Company/Batch Header Record. For Standard Entry Class Code COR, the Transaction Code must be 21, 26, 31, 36, 41, 46, 51, or 56. For Standard Entry Class Code DNE, the Transaction Code must be 21, 23, 31, or 33.
• Forward Entries and Return Entries are in the same batch.
• Return, dishonored Return, and/or contested dishonored Return Entries are in the same batch.
• ACH Operator Return Entries and RDFI Return Entries are in the same batch.
• The Batch Number in the Company/Batch Header Record is non-numeric.
• The Batch Number in the Company/Batch Control Record is non-numeric.
• The Batch Number in the Company/Batch Control Record is not the same as the Batch Number in the Company/Batch Header Record.
• The Foreign Exchange Indicator is all spaces or all zeros (IAT Entries).
• The ISO Destination Country Code is all spaces or all zeros (IAT Entries).
• The Originator Identification is all spaces or all zeros (IAT Entries).
• The ISO Originating Currency Code is all spaces or all zeros (IAT Entries).
• The ISO Destination Currency Code is all spaces or all zeros (IAT Entries).
• The GO Identification/Originating DFI Identification in the Company/Batch Header Record is not the routing number of a valid Gateway Operator or ODFI (IAT Entries).

*The ACH Operator may also pend or Reject the File or batch(es) if any additional error conditions, as agreed between ACH Operator and its customer, exist within a batch(es).*
PART 2.5 Automatic Entry Detail Rejection Criteria

PART 2.5 Entry Detail Error Condition Criteria

ACH Operators use Return Reason Codes for the following error conditions. These error conditions will never cause the entire File or batch to be rejected but will always cause the Entry Detail Record to be returned using an Addenda Record with an Addenda Type Code of “99.” Return Entries must comply with the requirements of Appendix Four (Return Entries).

ACH Operators use Return Reason Codes for the following error conditions. These error conditions will never cause the entire File or batch to pend or to be Rejected but will always cause the Entry Detail Record to be Returned using an Addenda Record with an Addenda Type Code of “99.” Return Entries must comply with the requirements of Appendix Four (Return Entries).

The ACH Operator may also Return an Entry if any additional error conditions, as agreed between ACH Operator and its customer, exist within the Entry.

R13 Invalid ACH Routing Number

• Entry contains a Receiving DFI Identification or GO Identification that is not a valid ACH routing number.

R18 Improper Effective Entry Date

• The Effective Entry Date for a credit Entry is more than two Banking Days after the Banking Day of processing as established by the Originating ACH Operator.

• The Effective Entry Date for a debit Entry is more than one Banking Day after the processing date.

R19 Amount Field Error

• Amount field is non-numeric.

• Amount field is not zero in a Prenotification, DNE, ENR, Notification of Change, refused Notification of Change, or zero dollar Entry.

• Amount field is zero in an Entry other than a Prenotification, DNE, ENR, Notification of Change, refused Notification of Change, Return, dishonored Return, contested dishonored Return, or zero dollar Entry.

• Amount field is greater than $25,000 for ARC, BOC, and POP Entries.

R25 Addenda Error

• Addenda Record Indicator value is not “0” or “1”.

• Addenda Record Indicator value is “0” but Addenda Record follows.

• Addenda Record Indicator value is “1” but no Addenda Record follows.

• Addenda Record Indicator on a CTX, ENR, IAT, or TRX Entry is “0” and Number of Addenda Records is not zero. Addenda Record Indicator is “1” and Number of Addenda Records is (0).

• The Addenda Record Indicator for Notifications of Change, refused Notifications of Change, Returns, dishonored Returns, contested dishonored Returns, DNE, ENR, MTE, POS, SHR, TRX, and zero dollar Entries other than Prenotifications is not equal to “1.” The Addenda Record Indicator for IAT Entries, including Prenotification Entries, is not equal to “1.”
• Addenda Type Code is not valid if not equal to “02” for MTE, POS, or SHR Entries; “05” for ACK, ATX, CCD, CIE, CTX, DNE, ENR, PPD, TRX, or WEB Entries; “98” on Notification of Change or refused Notification of Change; or “99” on Return, dishonored Return, or contested dishonored Return Entries.

• For IAT Entries, Addenda Type Code is not valid if not equal to “10,” “11,” “12,” “13,” “14,” “15,” “16,” “17,” or “18.” Addenda Type Code for an IAT Return is not valid if not equal to “10,” “11,” “12,” “13,” “14,” “15,” “16,” or “99.” Addenda Type Code for an IAT Notification of Change is not valid if not equal to “98.”

• For IAT forward Entries and IAT Returns, Addenda Type Codes “10-16” are not in appropriate sequential order.

• One or more mandatory Addenda Records for IAT forward Entries, Returns, and Notifications of Change is missing.

• For IAT forward Entries and IAT Returns, the Entry contains more than one of each of the following Addenda Types: “10,” “11,” “12,” “13,” “14,” “15,” “16,” and “16.”

• For IAT forward Entries, the Entry contains more than two Addenda Records for Remittance Information (Addenda Type Code 17).

• Total number of Addenda Records exceeds the maximum number allowable (9,999) per Entry Detail Record (CTX, ENR, or TRX).

• Total number of Addenda Records exceeds the maximum allowable (12) per Entry Detail Record (IAT).

• The number of Addenda Records exceeds one (1) for CCD, CIE, DNE, MTE, POS, PPD, SHR, WEB, Notifications of Change, refused Notifications of Change, Returns, dishonored Returns, and contested dishonored Returns.

• Addenda Sequence Number is not valid.

• The actual number of Addenda Records is not equal to the number of Addenda Records in the Corporate Entry Detail Record (CTX) or the Entry Detail Record (ENR, IAT, TRX).

• For IAT forward Entries and IAT Returns, the Entry Detail Sequence Number does not correspond to the Trace Number on the preceding IAT Entry Detail Record.

R26  Mandatory Field Error

• Individual Name contains all spaces or all zeros (MTE, TEL, and WEB Entries).

• For IAT Entries, any mandatory field contains all spaces or all zeros.

• Individual Identification Number contains all spaces or all zeros (MTE Entries or CIE Entries).

• Check Serial Number contains all spaces or all zeros (ARC, BOC, POP, RCK, or XCK Entries).

• Terminal City contains all spaces or all zeros (POP Entries only).

• Terminal State contains all spaces or all zeros (POP Entries only).

• Card Transaction Type Code is not a valid code as specified in Appendix Three (ACH Record Format Specifications) (POS and SHR Entries only).
• Number of Addenda Records in a Corporate Entry Detail Record or IAT Entry Detail Record is not numeric.

• The Return Reason Code field for Return Entries, the Dishonored Return Reason Code field for dishonored Returns, or the Contested Dishonored Return Reason Code field for contested dishonored Returns does not contain a valid code as specified in Appendix Four (Return Entries).

• Dishonored Return Entries, contested dishonored Return Entries, and refused COR Entries are not permitted for use with the IAT Standard Entry Class Code.

• The Change Code field for Notification of Change Entries or the Refused COR Code field for refused Notification of Change Entries does not contain a valid code as specified in Appendix Five (Notification of Change).

• On a Notification of Change or Refused Notification of Change, the Corrected Data field is blank, or on a refused Notification of Change, the Change Code is not a currently assigned value (see Appendix Five, Notification of Change) or the COR Trace Sequence Number field is not numeric. A refused Notification of Change is denoted by a valid Refused COR Code in the Refused COR Code field. See Appendix Five for a list of valid codes.

• In a dishonored Return or contested dishonored Return, the Return Trace Number is not numeric, the Return Settlement Date is not a valid Julian Date in the range 001-366, or the Return Reason Code is not a currently assigned value for Returns.

• In a dishonored Return bearing Return Reason Code R69 (Field Error(s)), the Addenda Information Field contains all spaces or all zeros.

• In a contested dishonored Return, the Dishonored Return Trace Number is not numeric, the Dishonored Return Settlement Date is not a valid Julian Date in the range 001-366, or the Dishonored Return Reason Code is not a currently assigned value for dishonored Returns.

• In a contested dishonored Return with Contested Dishonored Return Reason Code R73 (Timely Original Return), the Original Settlement Date is not a valid Julian date in the range 001-366, or the Date Original Entry Returned is not a valid date.

R27  *Trace Number Error*

• Original Entry Trace Number is not present in the Addenda Record on a Return or Notification of Change Entry.

• Trace Number of an Addenda Record is not the same as the Trace Number of the preceding Entry Detail Record.

R28  *Routing Number Check Digit Error*

• The Check Digit for a routing number is not valid.

R30  *RDFI Not Participant in Check Truncation Program*

R32  *RDFI Non-Settlement*

• The RDFI is not able to settle the Entry.

R34  *Limited Participation DFI*

• The RDFI's participation has been limited by a federal or state supervisor.
R35  Return of Improper Debit Entry

• ACH debit Entries (with the exception of Reversals) are not permitted for use with the CIE Standard Entry Class Code.

• ACH debit Entries (with the exception of Reversals) are not permitted to loan accounts.

R36  Return of Improper Credit Entry

• ACH credit Entries (with the exception of Reversals) are not permitted for use with the following Standard Entry Class Codes: ARC, BOC, POP, RCK, TEL, and XCK.

APPENDIX THREE
ACH Record Format Specifications

PART 3.2 Glossary of ACH Record Format Data Elements

SUBPART 3.2.1 Field Inclusion Requirements

The following information defines the requirements for the inclusion of certain data fields in ACH Entries. This involves the standardization of three definitions: Mandatory, Required, and Optional.

Mandatory for ACH Operator Processing. A “Mandatory” field is necessary to ensure the proper routing and/or posting of an ACH Entry. Any “Mandatory” field not meeting required data specifications will cause that Entry, batch, or File to be Rejected by the ACH Operator. A Rejected Entry will be returned to the ODFI by the ACH Operator. A Rejected batch or Rejected File will be reported to the ODFI or Sending Point by the ACH Operator.

Mandatory for ACH Operator Processing. A “Mandatory” field is necessary to ensure the proper routing and/or posting of an ACH Entry. Any “Mandatory” field not meeting required data specifications, as defined in Appendix Two (Specifications for Data Acceptance by ACH Operators) will cause the ACH Operator to pend or Reject the File, batch, or Entry. A File, batch, or Entry placed in a pending status by the ACH Operator will await action to be released or Rejected, based on instructions provided by the Sending Point. The ACH Operator will report to the ODFI or its Sending Point any File, batch, or Entry placed in a pending status or Rejected by the ACH Operator. A Rejected Entry will be returned to the ODFI or its Sending Point by the ACH Operator.

Required for RDFI Processing. The omission of a “Required” field will not cause an Entry Reject at the ACH Operator, but may cause a reject at the RDFI and may result in the return of the Entry. An example is the DFI Account Number field in the Entry Detail Record. If this field is omitted by an ODFI, the RDFI may return the Entry as nonpostable. Data classified as “Required” should be included by the Originator and ODFI to avoid processing and control problems at the RDFI.

Optional. The inclusion or omission of an “Optional” data field is at the discretion of the Originator and ODFI. However, if a DFI does originate Files using optional data fields, the RDFI must return these fields to the ODFI if the Entry is returned.
2. Clarification of TEL Authorization Requirements

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

SUBSECTION 2.5.15 Specific Provisions for TEL Entries (Telephone-Initiated Entry)

SUBSECTION 2.5.15.1 General Rule for TEL Entries

A TEL Entry is a debit Entry originated based on an oral authorization provided to the Originator by a Receiver via the telephone. A TEL Entry may only be used when there is an Existing Relationship between the Originator and the Receiver, or, when there is not an Existing Relationship between the Originator and the Receiver, when the Receiver initiates the telephone call. An ODFI must perform, or ensure that its Originator or Third-Party Sender performs, the requirements of Subsection 2.5.15.2 (Authorization of TEL Entries) and Subsection 2.5.15.3 (Retention of the Record of Authorization for TEL Entries) below before permitting the Originator or Third-Party Sender to initiate a TEL Entry.

In addition to the requirements of Subsection 2.3.2.3 (Form of Authorization), the following minimum information must be included as part of the authorization of a Single Entry TEL Entry:

(a) the date on or after which the ACH debit to the Receiver’s account will occur;

(b) the amount of the transaction or a reference to the method of determining the amount of the transaction;

(c) the Receiver’s name or identity;

(d) the account to be debited;

(e) a telephone number for Receiver inquiries that is answered during normal business hours;

(f) the date of the Receiver’s oral authorization; and
(g) a statement by the Originator that the authorization obtained from the Receiver is for a Single-Entry ACH debit, a one-time electronic funds transfer, or other similar reference.

For an authorization related to a Single Entry TEL Entry, the Originator must either make an audio recording of the oral authorization, or provide the Receiver with written notice confirming the oral authorization prior to the settlement of the Entry.

The following minimum information must be included as part of the authorization of a recurring TEL Entry:

In addition to the requirements of Subsection 2.3.2.3 (Form of Authorization), the following minimum information must be included as part of the authorization of a recurring TEL Entry:

(h) the amount of the recurring transactions, or a reference to the method of determining the amounts of recurring transactions;

(i) the timing (including the start date), number, and/or frequency of the electronic fund transfers, or other similar reference, to the Consumer’s account;

(j) the Receiver’s name or identity;

(k) the account to be debited;

(l) a telephone number for Receiver inquiries that is answered during normal business hours; and

(m) the date of the Receiver’s oral authorization.

For an authorization relating to recurring TEL Entries, the Originator must comply with the requirements of Regulation E for the authorization of preauthorized transfers, including the requirement to send a copy of the authorization to the Receiver.

3. Clarification of RDFI Obligation to Return Credit Entry Declined by Receiver

ARTICLE THREE

Rights and Responsibilities of RDFIs and Their Receivers

SUBSECTION 3.8.3.2 Timing Requirements for Credit Entries Refused by Receiver

An RDFI must return any credit Entry that is refused by a Receiver. The RDFI must Transmit any such Return Entry to its ACH Operator by the ACH Operator’s 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 RDFI’s receipt of notification from the Receiver that it has refused the Entry.

SUBSECTION 3.8.3.2 Timing Requirements for Credit Entries Declined by Receiver

An RDFI must return any credit Entry that is declined by a Receiver unless (i) there are insufficient funds available to satisfy the Return, including due to any third party lien or security interest; (ii) the return is prohibited by Legal Requirements; or (iii) the RDFI itself has a claim against the proceeds of the credit Entry, including by offset, lien, or security interest. The RDFI must Transmit any such Return Entry to its ACH Operator by the ACH Operator’s 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 RDFI’s receipt of notification from the Receiver that it has declined the Entry.
4. Clarification on Reinitiation of Return Entries

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

SUBSECTION 2.12.4 Reinitiation of Returned Entries

SUBSECTION 2.12.4.1 General Rule for Reinitiated Entries
An Originator or ODFI may Reinitiate an Entry, other than an RCK Entry, that was previously returned, only if:

(a) the Entry was returned for insufficient or uncollected funds;

(b) the Entry was Returned for stopped payment and Reinitiation has been separately authorized by the Receiver after the Originator or ODFI receives the Return Entry; or

(c) the Originator or ODFI has taken corrective action to remedy the reason for the return.

The Originator or ODFI must Reinitiate the Entry within 180 days after the Settlement Date of the original Entry. An Originator or ODFI must not Reinitiate an Entry that has been returned for insufficient or uncollected funds more than two times following the Return of the original Entry.

The Originator or ODFI must Reinitiate the Entry within 180 days after the Settlement Date of the original Entry. An Originator or ODFI 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.

An Originator or ODFI may Reinitiate an RCK Entry that was previously returned if:

(d) the RCK Entry has been returned for insufficient or uncollected funds; and

(e) the item to which the RCK Entry relates has been presented no more than one time through the check collection system (as a Check, substitute check, or image) and no more than one time as an RCK Entry.

A debit Entry will not be treated as a Reinitiated Entry if:

(f) the debit Entry is one in a series of preauthorized, recurring debit Entries and is not contingent upon whether an earlier debit Entry in the recurring series has been Returned; or,

(g) the Originator obtains a new authorization for the debit Entry after it receives the original Return Entry; or,

(h) the debit Entry is initiated to the Receiver's correct account following the return of a previous Entry using Return Reason Code R03 (No Account/Unable to Locate Account) or R04 (Invalid Account Number Structure).
5. Clarification on RDFI Liability upon Receipt of a Written Demand for Payment

ARTICLE THREE
Rights and Responsibilities of RDFIs and Their Receivers

SUBSECTION 3.6.2 Liability of RDFI for Reclamation Entries and Written Demands for Payment
An RDFI shall be liable to the Originator for the amount of each Reclamation Entry or written demand for payment properly initiated by the ODFI pursuant to Section 2.10 (Reclamation Entries and Written Demands for Payment) unless the Reclamation Entry or Written Demand for Payment is properly returned by the RDFI.

SUBSECTION 3.6.2 Liability of RDFI for Reclamation Entries and Written Demands for Payment
An RDFI shall be liable to the Originator for the amount of each Reclamation Entry or written demand for payment properly initiated by the ODFI pursuant to Section 2.10 (Reclamation Entries and Written Demands for Payment). In addition to its rights under Section 3.8 (RDFI's Right to Transmit Return Entries), an RDFI may Return a Reclamation Entry or reject a Written Demand for Payment that is not properly initiated by the ODFI.