



2016 National ACH Association Rules

Drew Coveney
Senior Internal Auditor

Michelle Post
Senior Internal Auditor

Before we get started...

- Today's presentation slides can be downloaded at www.wolfandco.com/webinars/2016.
- The session will last about 45 minutes, and we'll then have time for Q & A.
- Our audience will be muted during the session.
- Please send your questions in using the "Questions Box" located on the webinar's control panel.

About Wolf & Company, P.C.

- Established in 1911
- Offers Audit, Tax, and Risk Management services
- Offices located in:
 - Boston, Massachusetts
 - Springfield, Massachusetts
 - Albany, NY
 - Livingston, NJ
- Over 200 professionals



As a leading regional firm founded in 1911, we provide our clients with specialized industry expertise and responsive service.

Financial Institution Expertise

- Over 45 Risk Management Professionals:
 - IT Assurance Services Group
 - Internal Audit Services Group
 - Regulatory Compliance Services Group
 - WolfPAC® Solutions Group
- Provide services to over 300 financial institutions:
 - Approximately 85 FIs with assets > \$1B
 - Approximately 40 publicly traded FIs
 - Constant regulatory review of our deliverables
- Provide Risk Management Services in 27 states and 2 U.S. territories



Meet Today's Presenters

Drew Coveney

Senior Internal Auditor

Phone: 617-933-3365

Email: dcoveney@wolfandco.com

Michelle Post

Senior Internal Auditor

Phone: 617-428-5427

Email: mpost@wolfandco.com

Today's Agenda

- 2015 Rule Changes Overview
 - September 18, 2015
- 2016 Rule Changes
 - January 1, 2016
 - March 18, 2016
 - September 23, 2016
 - October 3, 2016
- Fine Tuning Your ACH Operations (*included throughout*)
- Today's Recap

New/Updated ODFI Return Rate Thresholds

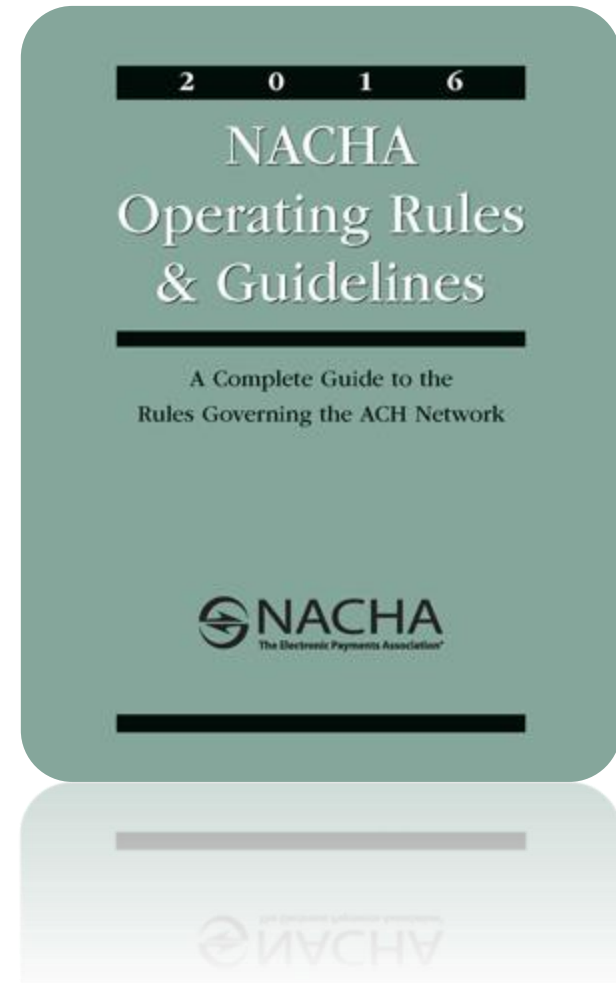
- Reduce the existing Return Rate threshold for unauthorized debits from 1.0% to 0.5%
 - *R05, R07, R10, R29 & R51*
- Establishes a preliminary inquiry process to evaluate and research cases in which an Originator's administrative returns exceed 3% return rate level
 - *R02, R03, R04*
- Establishes a preliminary inquiry process to evaluate and research cases in which an Originator's overall returns exceed 15% return rate level
 - *All return reason codes*

Re-Initiation

- Define and establish standards for reinitiated entries
- Require reinitiated entries to have same Company Name, Company ID and Amount as original entry
- Standard use of Company Entry Description “RETRY PYMT”
- Improper reinitiated entries can be returned as R10 – Unauthorized

2016 ACH Rule Changes

- January 1, 2016
- March 18, 2016
- September 23, 2016
- October 3, 2016



RDFI Obligation

- Revises Article Three, Section 3.11 (RDFI Obligation to Rec)

States that an RDFI's obligation to recredit a consumer Receiver includes the circumstance of an improperly Reinitiated Debit Entry defined in Article Three, Subsection 3.12.4 (Improperly Reinitiated Debit Entries)

Changes: January 1, 2016

Reasonable Encryption Standard

- Require ACH participants to have a commercially reasonable standard of encryption technology
- Removal of existing reference to 128-bit encryption technology



Recrediting Receiver

- Removed 15 calendar day notification for recrediting a receiver
 - For unauthorized debit entries
 - Consumer accounts



Zero-Dollar Entry

- Add backs in the definition of a Zero-Dollar Entry within Article Eight Section 8.116
 - Bears remittance data that must be provided to the Receiver in an identical manner as “live” entries that transfer funds
 - Non-monetary entry transmitted by an Originator to the account of a Receiver to convey payment related remittance data to the Receiver
 - Must Include:
 - Transaction Code for Zero-Dollar Entry
 - Transmitted as a CCD or CTX Entry to a Non-Consumer Account
 - IAT Entry to the account of any Receiver

Changes: January 1, 2016

Notification of Change

- RDFI's warranty for information contained in a Notification of Change or Corrected Notification of Change is applicable only to the corrected information supplied by the RDFI
- Removes from the RDFI's warranty on NOCs the specific statement that the Receiver has authorized the change identified in the NOC



Expansion of Permissible Criteria for ODFI Returns

- Permits an ODFI to request that an RDFI return any Entry that the ODFI claims was originated without the authorization of the Originator
 - Also expands the description of Return Reason Code R06 (Returned per ODFI's Request) to include Entries returned by the RDFI for this reason
- Reflects actual current industry practice with regard to the recovery of funds related to unauthorized credit origination

Changes: January 1, 2016

ACH Network Administration Fees

- No change from the 2015 to 2016 fees
 - Per Entry Fee: \$.000162
 - Annual Fee: \$216.00



ACH Cards

- Requires Originators or Third-Party Service Providers that issue ACH cards to make disclosures to a consumer prior to activation. Disclosure must include:
 - ACH Card is not issued by the consumer's Financial Institution
 - POS Entries made with the ACH Card that exceed the balance in the customer's financial institution account may result in overdrafts and associated fees
 - Regardless of whether the consumer has opted to allow overdrafts with respect to debit cards issued by the Financial Institution
 - Benefits and protections for transactions made using the ACH Card may vary from those available through debit cards issued by the consumer's Financial Institution

Changes: September 23, 2016

Same Day ACH

- The new ACH Network Functionality will be implemented in three different phases:

| Functionality | Phase 1 Sept. 23, 2016 | Phase 2 Sept. 15, 2017 | Phase 3 March 16, 2018 |
|---|---------------------------------|---------------------------------|-------------------------------|
| Transaction Eligibility (\$25,000 limit; IAT not eligible) | Credits only | Credits and debits | Credits and debits |
| New Same Day ACH Processing Deadlines | 10:30 AM ET and 2:45 PM ET | 10:30 AM ET and 2:45 PM ET | 10:30 AM ET and 2:45 PM ET |
| New Settlement Time(s) | 1:00 PM ET and 5:00 PM ET | 1:00 PM ET and 5:00 PM ET | 1:00 PM ET and 5:00 PM ET |
| ACH Credit Funds Availability | End of RDFI's processing day | End of RDFI's processing day | 5:00 PM RDFI local time |

Same Day ACH

- Why?
 - Keep up with the faster payment options
 - Offers enhanced payment options for consumers, businesses and governments
- Adds two new same day settlement windows to each day
- Does not alter existing capabilities of the ACH Network

Same Day ACH

- Origination of Same Day ACH entries is optional
- Receipt of Same Day Entries is **not** optional
 - All RDFIs Same Day Entries are required and must pickup incoming ACH files from ACH Operator or receiving point and post Entries
- Next-day processing schedules remain unchanged and continue to be available

Same Day ACH – Eligible Transactions

- Individual Entries of \$25,000 and under
- All Standard Entry Class (SEC) codes exception for International ACH transactions (IATs)
- Zero-dollar Entries, such as prenotifications (prenotes), with the exception of Automated Enrollment Entries (ENRs)

Changes: September 23, 2016

Same Day ACH – Phase 1 Summary

- ACH **Credits** become eligible for same-day settlement
- Settlement occurs at 1:00PM and 5:00PM ET
- RDFIs are required to make funds available (not available for withdrawal) from Same Day ACH credits by the end of their processing day



Same Day ACH – Entry Fee

- Designed to mitigate operating and investment costs for RDFIs who are required to participate in Same Day ACH
- Approved fee is set at 5.2 cents per Same Day transaction to be paid by the ODFI to the RDFI of the Entry
- There will be periodic reviews of the Same Day Entry Fee by NACHA

Changes: September 23, 2016

Same Day ACH – Return Processing

- The return timeframe as it exists today in the NACHA Operating Rules will not change
- However, Same Day enables the RDFI to process returns right away on Settlement Date at its discretion, regardless of whether the forward Entry was a Same Day transaction or not
- Transaction limit and IAT restrictions do not apply to returns

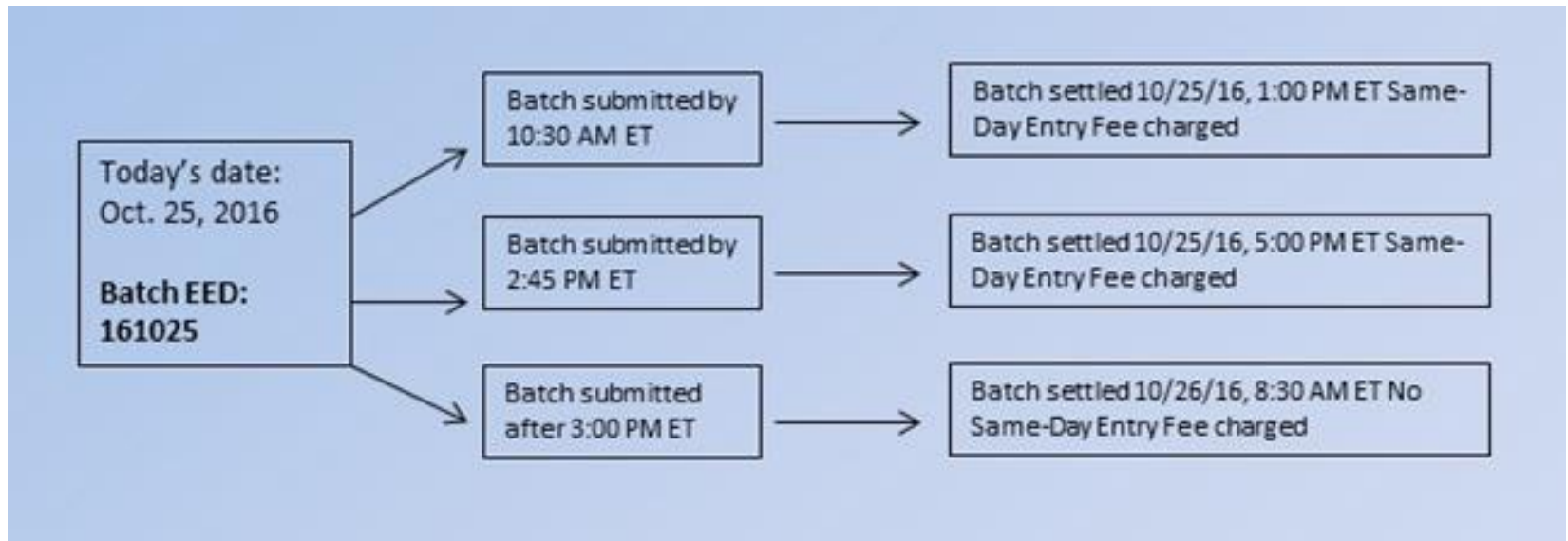
Changes: September 23, 2016

ACH Date Fields

| Field name | Format | Location | Purpose |
|---|------------------------|--|---|
| File Creation Date | YYMMDD | File Header record (mandatory) | Indicates date file created by ODFI to Operator, Operator to Operator, or Operator to RDFI |
| Company Descriptive Date | Alphameric | Batch Header record (optional) | Originator inputs this date that it would like Receiver to see for description, never used to control timing <i>For Same-Day ACH Originator may indicate intent to ODFI by populating with either SD1300 or SD1700</i> |
| Effective Entry Date | YYMMDD | Batch Header record (required) | Date specified by Originator as date it would like Entries to settle <i>For Same-Day ACH date must be either current day, stale or invalid</i> |
| Settlement Date | 3 digit Julian numeric | Batch Header record | Inserted by Receiving Operator as date DFI will be debited/credited by the Federal Reserve |
| Note | | | |
| Stale date: a date that is in the past | | Invalid date: blank, zero, partially blank, partially non-numeric, incomplete, day number higher than 31, month number higher than 12 | |

Changes: September 23, 2016

Effective Entry Dates (EED) – Case Study



Changes: September 23, 2016

Same Day ACH – Balanced Files

- Phase 1 – Credits Only
 - If send both credit and debit files that off-set each other, the debit file and/or transaction cannot be processed during Phase I, regardless if the debit entry is sent in the same file.
 - The debit file will be pushed back for settlement in the next eligible window
 - Credits will settle before the funding debit file and could fail to settle after the credit file has been released

Same Day ACH – Rule Changes

The following sections of the NACHA Operating Rules will change with Phase 1 (September 23, 2016)

- Article One, Section 1.12 Same Day Entry Fee (new section)
- Article Two, Subsection 2.5.8.1 General Rule For IAT Entries
- Article Three, Subsection 3.1.9 RDFI May Rely On Settlement Date (new subsection)
- Article Three, Subsection 3.3.1.1 General Rule For Availability Of Credits
- Article Eight, Section 8.84 Same Day Entry (new section)

Changes: September 23, 2016

Same Day ACH – Rule Changes

The following sections of the NACHA Operating Rules will change with Phase 1 (September 23, 2016)

- Appendix Three, Subpart 3.2.2 Glossary of Data Elements
 - Company Descriptive Date:
 - 6 Positions
 - Company/Batch Header Record
 - Optional
 - Effective Entry Date:
 - 6 Positions
 - Company/Batch Header Record
 - Required (all batches)
 - Settlement Date:
 - 3 Positions
 - Company/Batch Header Record
 - Inserted by Receiving ACH Operator (all batches)

Changes: September 23, 2016

Same Day ACH – Rule Changes

The following sections of the NACHA Operating Rules will change with Phase 1 (September 23, 2016)

- Appendix Ten, Subpart 10.4.6.2 Responsibilities of Enforcement Panel
- Appendix Eleven Determination and Review of Same Day Entry Fee (new section)
 - PART 11.1 Determination of Same Day Entry Fee (new)
 - PART 11.2 Revision of Same Day Entry Fee (new)
 - Part 11.3 Same Day ACH Initial Period (new)
 - Part 11.4 Same Day ACH Phase Three Effective Date (new)
 - Part 11.5 Same Day ACH Renewal Period (new)

Improving Network ACH Quality

- Defines and Establishes a Methodology
- Methodology for Setting Fees
- Collection of Fees
- Effective Date

What's Next?

Same Day ACH Phases 2 &3

- With Phase 2 implementation, the addition of debits expands eligibility further
 - Same Day ACH debits will support use cases such as bill payment, account-to-account transfers, check conversion, business-to-business, and e-commerce payments
 - Prenotifications for future debit Entries and Reversals of credits will be eligible for same-day processing
 - Effective date: September 15, 2017
- With Phase 3, RDFIs must make funds available for withdrawal by 5:00 PM RDFI local time
 - Effective Date: March 16, 2018

What's Next?

RFC-Third Party Sender Registration

NACHA requests comments on proposed changes to the NACHA Operating Rules that would require Originating Depository Financial Institutions (ODFIs) to register their Third-Party Senders with NACHA. The resulting Third-Party Sender registry would be a risk mitigation tool that would (1) standardize across all ODFIs the basic data collected for all Third-Party Senders; and (2) provide high-level information on Third-Party Senders that would enable better monitoring by NACHA of trends and any risks associated with Third-Party Senders in the ACH Network.

What's Next?

RFC-Third Party Sender Registration

Proposed effective date: June 16, 2017

- The required registration information would be:
 - ODFI's name and contact information
 - Name and principal business location of the Third-Party Sender
 - Routing number and Company Identification used in ACH transactions originated for the Third-Party Sender.
- An ODFI would be required to provide this information for each currently existing Third-Party Sender relationship by the effective date of the Rule, and, after the Rule becomes effective, within 30 days of originating entries for any new Third-Party Sender relationship.

Recap

- Reviewed the ODFI Return Rate Thresholds & initiations from 2015
- Recrediting Receiver
- Notification of Change
- OFDI Periodic Statements
- Reasonable Encryption Standard
- Zero-Dollar Entries
- ACH Network Administration Fees
- Same Day ACH
- Improving Network ACH Quality

Additional Resources

- www.nacha.org
- www.achrulesonline.org
- www.neach.org

Questions?

Drew Coveney

Senior Internal Auditor

Phone: 617-933-3365

Email: dcoveney@wolfandco.com

Michelle Post

Senior Internal Auditor

Phone: 617-428-5427

Email: mpost@wolfandco.com