

# Navigating the 2018 *ACH Rules*



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# Today's Objectives

- Explain the origins, significance and consequences of compliance with the *ACH Rules*
- Discuss Same Day ACH use cases, including risks, benefits and financial impacts for financial institutions and companies
- Explain how the *ACH Rules* define a Third-Party Sender and the risks, benefits and financial impacts they have upon the payments industry

# About the Facilitator



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# Navigating the ACH Rules

## Agenda

**1** *ACH Rules*

**2** Same Day ACH

**3** Third-Party Sender Registration

# ***ACH Rules***

# 1

# Who is NACHA?



- National Association
- Manages and enforces *ACH Rules*
- Private sector
- Members vote on Rules

# Who is EPCOR?

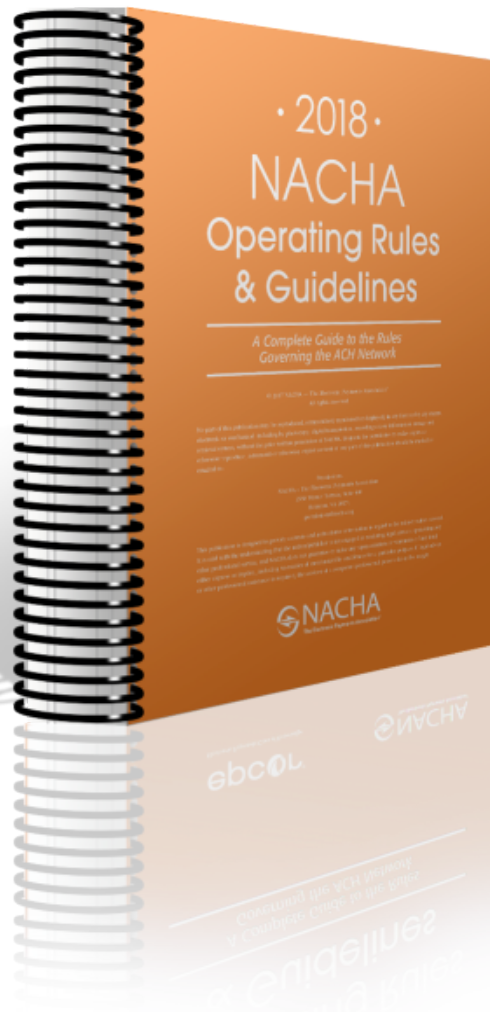


Regional Payments Association in this territory

Most financial institutions and companies in the room are members

Payments education, information and services

# ACH Rules



## PART 10.4 National System of Fines

### SUBPART 10.4.1 Initiation of a Rules Enforcement Proceeding

A rules enforcement proceeding may be initiated for any violation of these rules. A rules enforcement proceeding may be conducted by the National Association in response to an ACH rules violation, including a breach of warranty under these rules, filed against a Participating DFI. The complainant must be a Participating DFI or an ACH Operator that is party to the transaction. A rules enforcement proceeding initiated by a Participating DFI or an ACH Operator must comply with the requirements of Subpart 10.4.2 (Submission Requirements for Rules Enforcement Proceedings Initiated by a Participating DFI or an ACH Operator.) The Report of Possible ACH Rules Violation Form and filing instructions are located in the NACHA Operating Guidelines.

A rules enforcement proceeding may also be initiated and conducted by the National Association (1) as provided in Subpart 10.2.2.2 (National Association May Initiate a Rules Enforcement Proceeding); (2) in response to the National Association's reasonable belief that an ODFI, Originator, or Third-Party Sender has originated Entries without proper authorization in accordance with these Rules; or (3) in response to the failure of a Participating DFI to comply with a direct obligation to the National Association, as defined by these rules. The National Association may initiate a rules enforcement proceeding in accordance with clause (2) above on the basis of, and utilize in connection with such a proceeding, any information available to the National Association, including information received from Participating DFIs and ACH Operators.

# National System of Fines

Rules Violation	Fines
Class 1	Warning - \$5,000 
Class 2	Up to \$100,000 per month 
Class 3	Up to \$500,000 per month or suspension 

# ***ACH Rules for RDFIs***

- ① Funds availability
- ① Processing returns
- ① Consumer protection



**RDFI**

# ***ACH Rules for ODFIs***

- ① Authorizations
- ① Accepting returns
- ① Return levels
- ① Unauthorized returns
- ① Threshold
- ① Fees



**Origination of  
ACH Transactions**

# ACH Rules for Originators

This is a sample document.  
All legal agreements should be reviewed by legal counsel before implementation.

## ODFI/Originator Sample Shell Agreement

### COMPANY INFORMATION AND STATEMENT

Company: \_\_\_\_\_  
(hereafter referred to as "Company")

Tax ID Number: \_\_\_\_\_

Approved Exposure Limit(s): Listed in Schedule F

Approved SEC Codes: \_\_\_\_\_

This Agreement is made this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by and between Company and \_\_\_\_\_ ("Financial Institution").

### RECITALS

A. Company wishes to initiate [credit] [debit] [credit and debit] Entries pursuant to the terms of this Agreement and the *NACHA Operating Rules and Guidelines* (the "Rules"), and Financial Institution is willing to act as an Originating Depository Financial Institution ("ODFI") with respect to such Entries. Company may only initiate ACH Entries for the approved Standard Entry Class (SEC) codes set forth above under Approved SEC Code(s), or such other SEC codes as may be approved by Financial Institution.

B. Unless otherwise defined herein, capitalized terms have the meanings provided in the *Rules*. The term "Entry" has the meaning provided in the *Rules* and also means the data received from Company from which Financial Institution prepares Entries.

C. Financial Institution's Board of Directors does not permit processing of the following SEC Codes as they do not adhere to the Board's directive. Company may not process the following SEC Code(s): \_\_\_\_\_ (remove Recital C if Board allows processing of all SEC Codes)

### AGREEMENT

- NACHA Operating Rules and Guidelines*. Company has access to a copy of the *Rules*, acknowledges receipt of a copy, or may purchase a copy if it so desires. Company agrees to comply with and be bound by the *Rules*. If Company violates any of the applicable *Rules* and NACHA imposes a fine on Financial Institution because of Company's violation, Financial Institution may charge the fine to Company. Financial Institution will notify Company of any changes to the *Rules*.
- U.S. Law*. It is the responsibility of Company to ensure that Company's origination of ACH transactions complies with U.S. law.
- Governing Law*. This Agreement will be construed in accordance with and governed by the laws of \_\_\_\_\_.

## Anything an ODFI is responsible for

- Authorizations
  - Requests for authorizations
- Notifications of Change (NOCs)
- Rules enforcement

# Same Day ACH

A large, stylized number '2' is centered in the lower half of the slide. The number is rendered in a light green color with a subtle gradient and a slight shadow, giving it a three-dimensional appearance. It is set against a background of abstract, flowing green lines that create a sense of motion and depth.

# Same Day ACH Review

1

## Fls Preparation

RDFI required to make funds available to pay incoming debits

2

3

## Finalized

Funds Available by 5 pm Local Time

**PHASED IMPLEMENTATION**

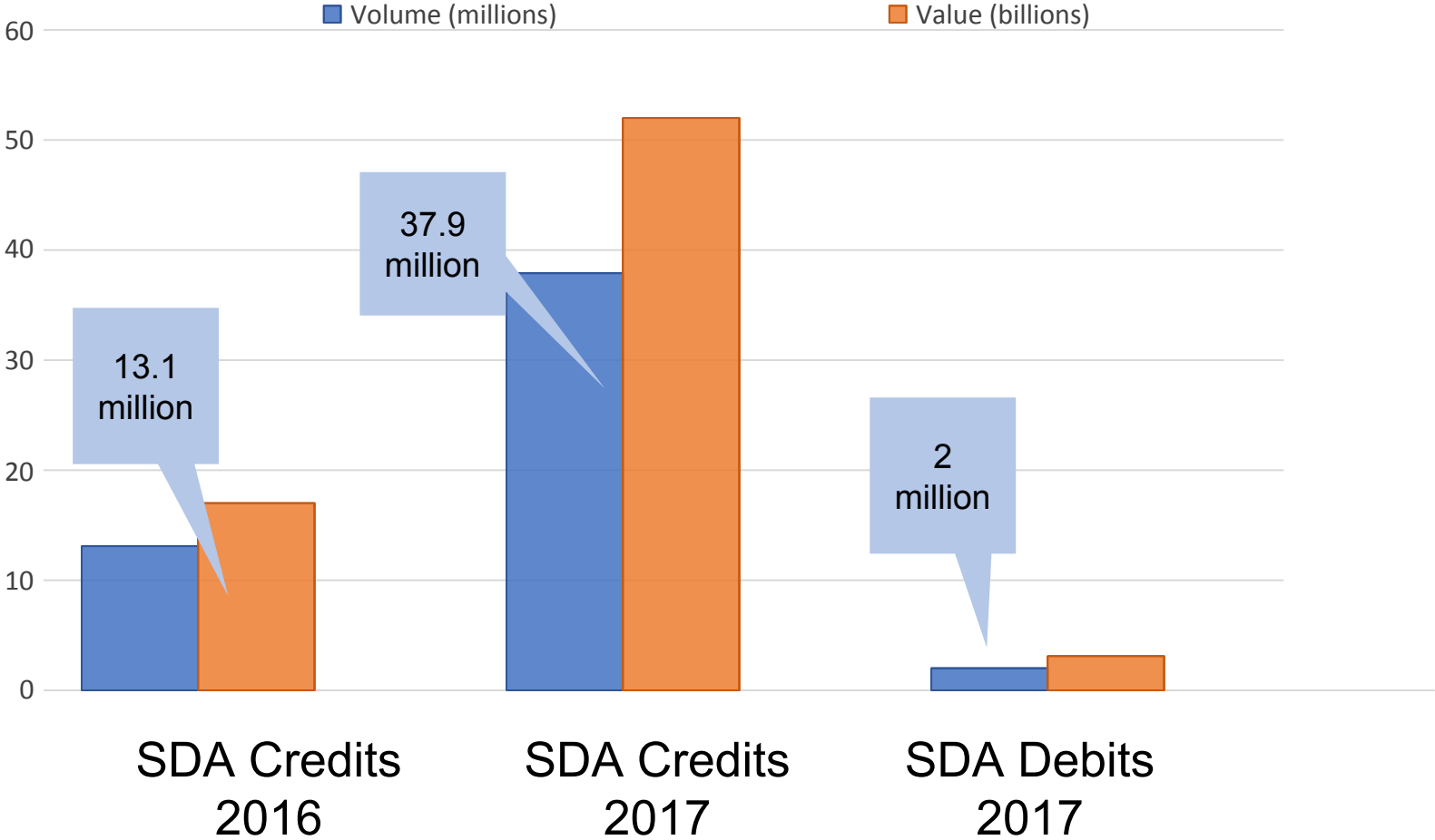
# Federal Government & Same Day ACH

Acceptance of Same Day ACH credits

Sept 15, 2017

Criteria and procedures being developed for origination of Same Day ACH payments

# Volume and Value of SDA Credits and Debits



# Uses for Same Day Credits

- 🕒 Emergency payrolls
- 🕒 Hourly or temporary payrolls
- 🕒 Expense reimbursements or bonuses
- 🕒 Tax or vendor payments
- 🕒 Cash disbursements to fund operating expenses
- 🕒 Person-to-Person (P2P) payments



# Uses for Same Day Debits

- Last minute payments
- Check conversions
- Missed billing file
- Cash concentration



# Same Day ACH - Discussion

## Financial Institutions

	ODFI	RDFI
Benefits		
Risks		

## Companies

	Originator	Receiver
Benefits		
Risks		

# Business Case:

## Same Day ACH Benefits

- ⦿ Less costly than wire transfers
- ⦿ Resend returned payments more quickly
- ⦿ Contingency plan for missed payrolls
- ⦿ May be able to hold onto funds longer
- ⦿ Additional security requirements



# Business Case:

## Same Day ACH Benefits

- Compare processing cost to next-day ACH Services
- Dollar limitations and balanced files
- Improve ability to collect returned payments
- Increased customer service

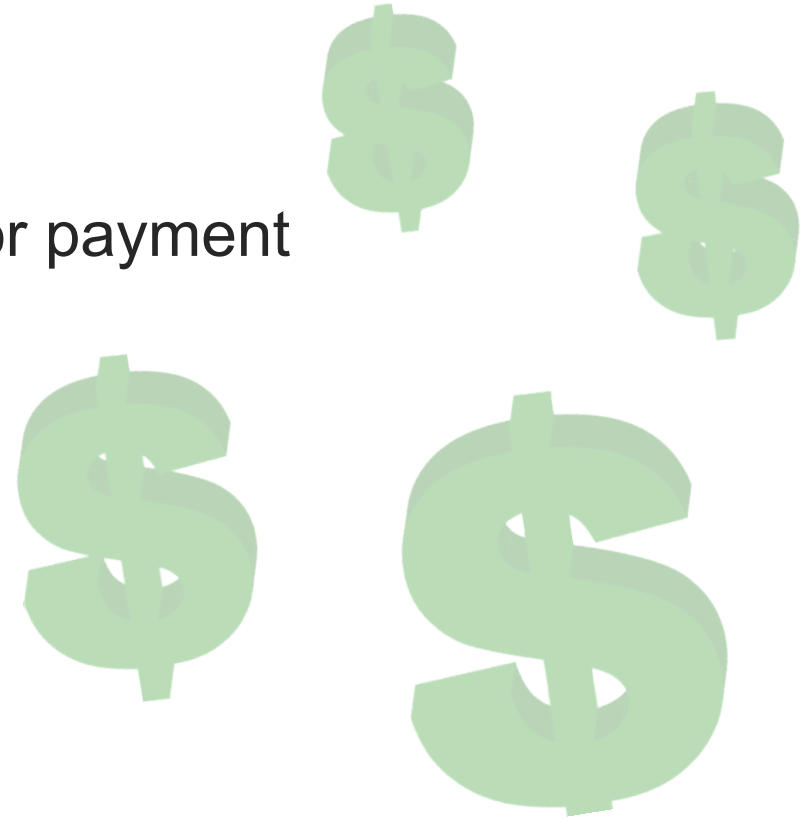
# Origination of Same Day ACH - Risks

- Effective Date (payday, due date, etc)
- Balanced files
- Ineligible items



# Receipt of Same Day ACH - Risks

- Additional intraday settlement times
- Additional funds to invest
- Unauthorized debits
- Give credit to customers for payment on date funds are received
- Remittance information
- Returns



# Third-Party Sender Registration

3

# Third-Party Sender (TPS) Registration

## ACH Rules Definition

mitted ACH and day  
ACH joint

Consumer... of the Receiver based on verbal authorization obtained over the telephone.

### SECTION 8.106 "Third-Party Sender"

a type of Third-Party Service Provider that acts as an intermediary in Transmitting Entries between an Originator and an ODFI, including through

OR69

Continues on OR70

### ARTICLE EIGHT – Definitions of Terms Used in These Rules

Direct Access, and acts on behalf of an Originator or another Third-Party Sender. A Third-Party Sender must have an Origination Agreement with the ODFI of the Entry. A Third-Party Sender is never the Originator for Entries it Transmits on behalf of another Organization. However, a Third-Party Sender of Entries may also be an Originator of other Entries in its own right.

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SECTION 8.107 "Third-Party Service  
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# ACH Rules Requirements for Third-Party Senders

- 🕒 Agreement with Originator
- 🕒 Authorizations
- 🕒 File limits
- 🕒 Transaction volumes
- 🕒 ACH audit
- 🕒 Risk assessment
- 🕒 Data security policy
- 🕒 Capitalization

ARTICLE TWO – Rights and Responsibilities of ODFIs, Their

Participating DFI. The annual and per-Entry fees are established from time to time by the Board of Directors of the National Association and are published within the Schedule of Fees part of the Rules.

**SUBSEC**  
**Originator**  
**SUBSEC**  
**Agreement**  
An ODFI  
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## ARTICLE TWO Rights and Responsibilities of ODFIs, Their Originators, and Third-Party Senders

### SECTION 2.1 General Rule – ODFI Is Responsible for Entries and Rules Compliance

An ODFI is responsible for all Entries originated through the ODFI, whether by an Originator or through a Third-Party Sender, including Entries Transmitted through Direct Access. An ODFI is responsible for its Originators' and Third-Party Senders' compliance with these Rules.

### SECTION 2.2 Prerequisites to Origination

An ODFI must perform, or ensure that an Originator or Third-Party Sender performs, each of the following before permitting the Originator or Third-Party Sender to originate any Entry:

# Third-Party Senders



Acts as an intermediary in transmitting entries between an Originator and financial institution

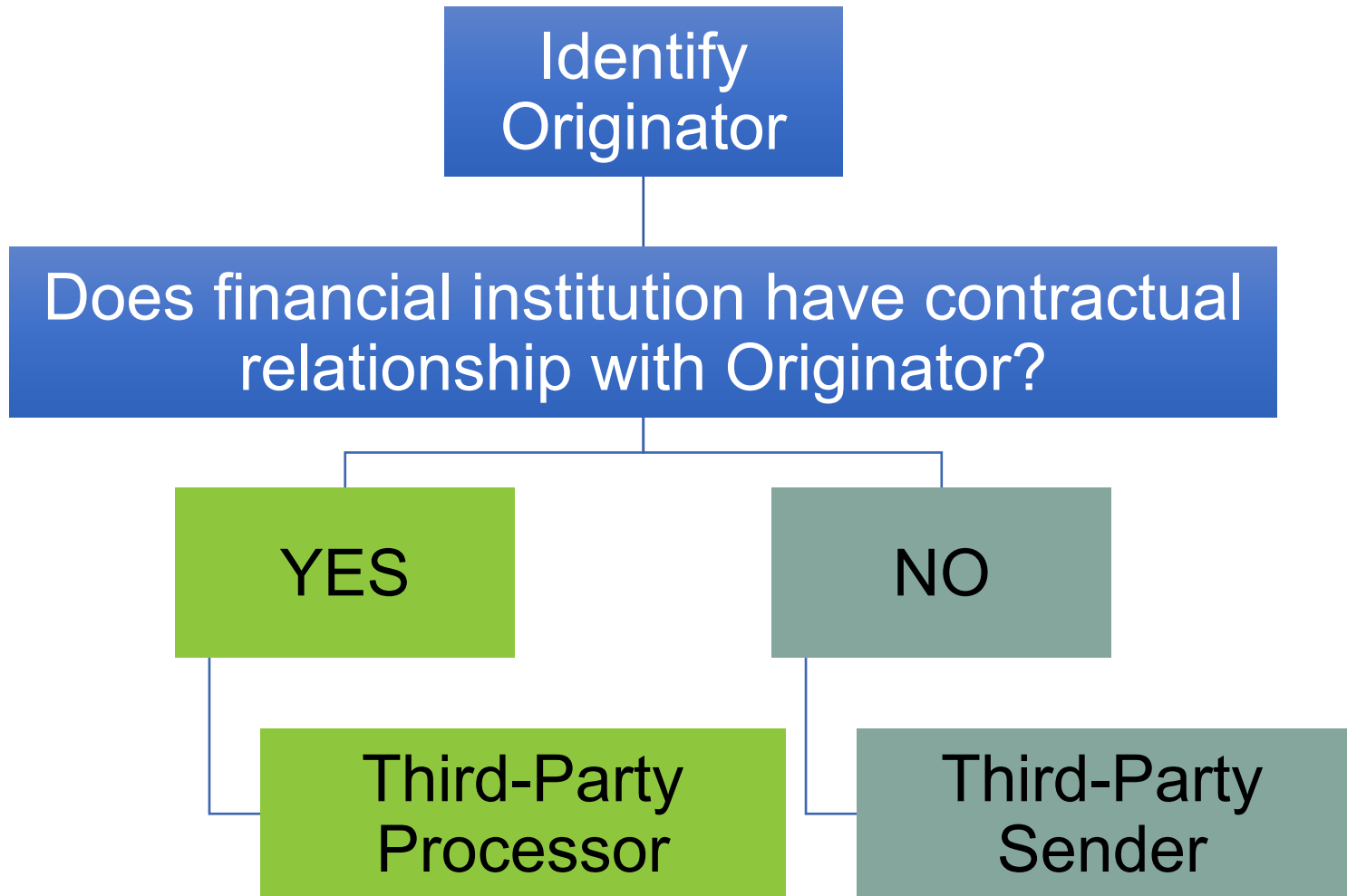


Relationship is between Third-Party and financial institution



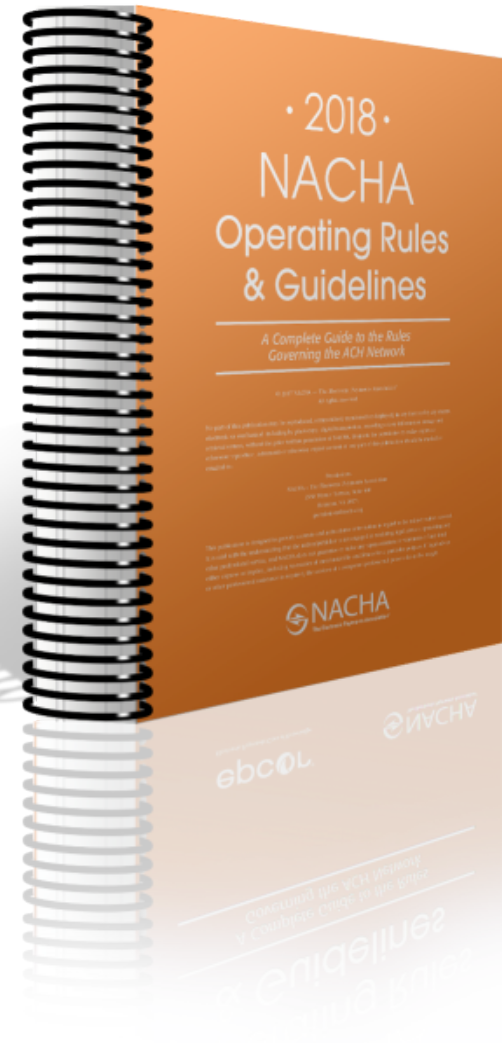
Third-Party acts like the ODFI to the Originator

# Third-Party Sender or Not?



# Third-Party Sender Registration Rule

- All ODFIs must either
  - Register TPS relationships or
  - State they have none
    - Via a registry database



# Purpose of the Third-Party Sender Rule

- Promote due diligence among all ODFIs
- Standardize basic due diligence information of TPS
- Assist in monitoring/investigating risk events



# Thank you for attending

## EPCOR Member Support:

[www.epcor.org](http://www.epcor.org) • [memserve@epcor.org](mailto:memserve@epcor.org)

800.500.0100

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## EPCOR Knowledge Community:

[community.epcor.org](http://community.epcor.org)

