



**NOTICE OF AMENDMENT
TO THE
2019 NACHA OPERATING RULES**

May 24, 2019

SUPPLEMENT #2-2019

Differentiating Unauthorized Return Reasons

Effective Dates: Phase 1 - April 1, 2020

Phase 2- April 1, 2021

Supplement #2-2019 to the *NACHA Operating Rules*

On April 12, 2019, the Nacha Voting Membership approved an amendment to the *NACHA Operating Rules (Rules)* on Differentiating Unauthorized Return Reasons. The effective dates for this rule change are April 1, 2020 and April 1, 2021.

The Differentiating Unauthorized Return Reasons Rule (Rule) is designed to better distinguish among types of unauthorized return reasons for consumer debits. This differentiation will give ODFIs and their Originators clearer and better information when a customer claims that an error occurred with an authorized payment, as opposed to when a customer claims there was no authorization for a payment. ODFIs and their Originators will be able to react differently to claims of errors, and potentially could avoid taking more significant action with respect to such claims. The Rule will also allow collection of better industry data on unauthorized activity.

In addition, language within the *Rules* regarding Written Statements of Unauthorized Debits will be modified to accommodate the newly defined return reason, but there will be no additional substantive changes to the WSUD rules.

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 2019 edition of the Rules.

Differentiating Unauthorized Return Reasons

SUMMARY

Currently, Return Reason Code R10 is a catch-all for various types of underlying return reasons, including some for which a valid authorization exists, such as a debit on the wrong date or for the wrong amount. In these situations, there is an actual relationship and payment authorization between the Originator and its customer (the Receiver), but the Originator made an error regarding the payment. For these cases, a return of the debit still should be made, but the Originator and the Receiver might both benefit from a correction of the error rather than more significant action such as the termination of the origination authorization.

Under the Rule, Return Reason Code R11 will be re-purposed to be used for the return of a debit in which there is an error, but for which there is an authorization. The re-purposed description will be "Customer Advises Entry Not in Accordance with the Terms of the Authorization." Return Reason Code R10 will continue to be used when a consumer claims he or she does not know the Originator, does not have a relationship with the Originator, or did not give authorization for the entry. The description will be "Customer Advises Originator is Not Known to Receiver and/or Is Not Authorized by Receiver to Debit Receiver's Account"

R11 returns will have the same processing requirements and characteristics as R10 returns, and are still considered unauthorized under the Rules.

- Incorrect EFTs are subject to the same error resolution procedures under Regulation E as unauthorized EFTs.
- The RDFI will be required to obtain the Receiver's Written Statement of Unauthorized Debit.
- The return timeframe will be 60 days.
- R11 returns will be included within the definition and calculation of the Unauthorized Entry Return Rate.
- R11 returns will be covered by the existing Unauthorized Entry Fee. (see Effective Date section)
- The new definition and use of R11 does not include disputes about goods and services, just as with the current definition and use of R10.

A key difference between R10 and R11 will be that an Originator will be permitted to correct the underlying error of an R11 return, if possible, and submit a new Entry without being required to obtain a new authorization. The new Entry must be originated within 60 days of the Settlement Date of the R11 Return Entry. In addition, any new Entry for which the underlying error is corrected is subject to the same ODFI warranties and indemnification made in Section 2.4 (e.g., the ODFI warrants that the corrected new Entry is in accordance with the terms of the authorization, it is timely, contains the correct amount, etc.).

Examples of correctable errors include a debit originated for settlement earlier than authorized; a debit for the wrong amount; a debit as part of an Incomplete Transaction; and some types of an improperly reinitiated Entry. Once the Originator has corrected the underlying issue, the Originator will be able to submit a new Entry. Some errors, however, cannot be corrected. Examples of uncorrectable errors include the Originator did not provide the required notice for ARC, BOC, or POP entries prior to accepting the check, or the notice did not conform to the requirements of the *Rules*; or the source document for an ARC, BOC or POP Entry was ineligible for conversion. In these cases, the Originator will not be able to submit a new Entry.

IMPACT TO PARTICIPANTS

Originators: Originators will need to be aware of the differences between returns bearing the R10 and R11 Return Reason Codes and modify their procedures accordingly.

ODFIs: ODFIs will need to educate their staff and Originators on the changes to Return Reason Codes R10 and R11. ODFIs will need to update their systems to accommodate re-purposing of R11, including modifications to return reporting and tracking capabilities.

Third-Party Service Providers and Third-Party Senders: These ACH participants will need to educate their staff and Originators on the changes to Return Reason Codes R10 and R11. When necessary, these Third-Parties will need to update their systems to accommodate the re-purposing of R11, including modifications to return reporting and tracking capabilities.

ACH Operators: ACH Operators will need to update their systems to accommodate the re-purposed R11, including ODFI Return Rate Reporting and application of Unauthorized Entry Fees.

RDFIs: RDFIs will need to educate their staff on the proper use of the Return Reason Codes, as well as update their systems to change the R11 return time frame to the 60 day window. RDFIs may also wish to review the format of their Written Statements of Unauthorized Debit to determine if any revisions are appropriate to facilitate updated use of these return codes.

EFFECTIVE DATE

The Rule will become effective in two phases. On April 1, 2020, the re-purposed return code will become effective, and financial institutions are to use it for its new purpose. Other provisions in the Rules that apply to unauthorized returns will become effective at this time with respect to R11s - i.e., Unauthorized Entry Return Rate and its relationship to ODFI Return Rate Reporting obligations.

A year later, on April 1, 2021, the re-purposed return code will become covered by the existing Unauthorized Entry Fee. This part of the Rule will be implemented by the ACH Operators, and as with the current fee, will be billed/credited on their monthly statements of charges.

TECHNICAL SUMMARY

Below is a summary of the impact of the Differentiating Unauthorized Return Reasons Rule on the NACHA Operating Rules. Sections of the Rules that are affected by this amendment are included and reflect rule language as it will read upon implementation in highlighted, italicized text.

- *Article One, Subsection 1.11.1 (General Rule on Unauthorized Entry Fee)* - updated to include Return Reason Code R11.*
- *Article Two, Subsection 2.12.4.1 (General Rule for Reinitiated Entries)* – modified to treat new corrected Entry differently from a Reinitiated Entry.
- *Article Two, Subsection 2.12.5 (Correction of Entries Returned as R11 – Customer Advises Entry Not in Accordance with the Terms of the Authorization)* - new subsection added to permit submission of corrected Entry and prohibit submission of uncorrectable Entry.
- *Article Three, Section 3.11 (RDFI Obligation to Recredit Receiver)* - updated structure to align with broader concepts of unauthorized Entries and authorized Entries that are not in accordance with the

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authorization.

- *Article Three, Section 3.12 (Written Statement of Unauthorized Debit)* - updated structure to align with broader concepts of unauthorized Entries and authorized Entries that are not in accordance with the authorization.
- *Article Three, Subsection 3.12.1 (Unauthorized Debit Entry/Authorization for Debit Has Been Revoked)* - updated structure to align with broader concepts of unauthorized Entries (including authorization revoked) and authorized Entries that are not in accordance with the authorization.
- *Article Three, Subsection 3.12.2 (Debit Entry not in Accordance with the Terms of the Authorization)* - revised to describe conditions in which RII would be used.
- *Article Three, Subsection 3.12.2.1 (Improper ARC, BOG and POP Debit Entries)* - minor modification to limit discussion of this subsection to ARC, BOC and POP Entries.
- *Article Three, Subsection 3.12.3 (Improperly Originated RCK Entry)* - minor modification to limit discussion of this subsection to RCK Entries.
- *Article Three, Subsection 3.12.4 (Form of Written Statement of Unauthorized Debit)* - modified to eliminate redundancy with new and revised text.
- *Article Three, Subsection 3.12.6 (Copy of Written Statement of Unauthorized Debit)* - updated to note that the ODFI must request a copy of the Written Statement of Unauthorized Debit within one year of the Settlement Date of the Extended Return Entry.
- *Article Eight, Section 8.111 (Unauthorized Entry Fee)* - updated to include RII.*
- *Article Eight, Section 8.112 (Unauthorized Entry Fee Return Rate)* - updated to include RII.
- *Article Eight, Section 8.117 (Written Statement of Unauthorized Debit)* - updated structure to align with broader concepts of unauthorized Entries (including authorization revoked) and authorized Entries that are not in accordance with the authorization.
- *Appendix Three, Subpart 3.2.2 (Glossary of Data Elements): Addenda Information* - modified to strike reference to RII.
- *Appendix Four- Return Entries (Introduction)* - modified to strike reference to RII.
- *Appendix Four, Subpart 4.2 (Table of Return Reason Codes)* - updated to include revised titles and descriptions for R10 and R11.

As approved April 12, 2019, effective April 1, 2020 and April 1, 2021, the Rules will be amended as follows for changes related to Differentiating Unauthorized Return Reasons:

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ARTICLE ONE
General Rules

SECTION 1.11 Unauthorized Entry Fee

SUBSECTION 1.11.1 General Rule on Unauthorized Entry Fee

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

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

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

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

SECTION 2.12 Return Entries

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 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.

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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); or
- (i) *the debit Entry is initiated to the Receiver's account following the return of a previous Entry using Return Reason Code R11 (Customer Advises Entry Not in Accordance with the Terms of the Authorization), and the error or defect in the previous Entry has been corrected to conform to the terms of the original authorization, in accordance with the requirements of Subsection 2.12.5 (Correction of Entries Returned as R11).*

SUBSECTION 2.12.5 Correction of Entries Returned as R11 (Customer Advises Entry Not in Accordance with the Terms of the Authorization) (new subsection)

An Originator that has received a Return Entry using Return Reason Code R11 (Customer Advises Entry Not in Accordance with the Terms of the Authorization) may correct, if possible, the error or defect in the original Entry and Transmit a new Entry that conforms to the terms of the original authorization, without the need for re-authorization by the Receiver. The Originator must transmit the new Entry within 60 days after the Settlement Date of the Return Entry.

The following errors causing the return of the original Entry as R11 cannot be corrected by the Originator, and transmission of a new Entry in these cases is prohibited:

- (a) *the Originator did not provide the required notice for an ARC, BOC, or POP Entry prior to accepting the check, or the notice did not conform to the requirements of these rules; or*
- (b) *the source document for an ARC, BOC, or POP Entry was ineligible for conversion.*