

Fulton Bank

NACHA Operating Rules Updates and Reminders 2023

Each company sending ACH transactions through Fulton Bank must comply with the *NACHA Operating Rules* as stated within the ACH Origination Services Agreement between Fulton Bank and the company. The National Automated Clearing House Association (NACHA) is the rule making body governing the ACH network; therefore, all participants of the ACH network must comply with these *Rules*. Fulton Bank will communicate these *Rules* changes annually to ensure that our companies are educated on these *Rules* and appropriate changes are made to your internal processes. Below, we have included not only the Originator (Corporate Client) responsibilities but also included summary information regarding recent and upcoming rule changes. It is important that you as an Originator (Corporate Client) utilizing the ACH network to process debits and credits make note of these *Rules* changes. This document is not intended to be a replacement or substitution for the *NACHA Operating Rules & Guidelines*. Annually, it is recommended that you purchase a copy of the updated *NACHA Operating Rules & Guidelines* by visiting <http://www.nacha.org>.

NACHA Operating Rules Reminders

Below are some reminders of the most researched *ACH Rules*; however, they do not constitute all required *NACHA Operating Rules*.

Data Security

All corporate clients must establish, implement and, as appropriate, update security policies, procedures, and systems related to the initiation, processing and storage of entries and resulting Protected Information. Security policies, procedures, and systems related to the initiation, processing, and storage of entries must: (1) protect the confidentiality and integrity of Protected Information; (2) protect against anticipated threats or hazards to the security or integrity of Protected Information; and (3) protect against unauthorized use of Protected Information that could result in substantial harm to a natural person. The *Rules* define Protected Information as the non-public personal information, including financial information, of a natural person used to create, or contained within, an entry and any related addenda record.

Some best business practices may include (1) ensuring computer updates regularly (2) initiating ACH entries under dual control (with two systems) – one individual will input the ACH debit and/or credit while another individual will approve the debit and/or credit from another computer (3) implementing a security policy that enforces no social networking sites to be accessed on the same computer as the cash management system (4) monitoring and reconciling your accounts daily, and (5) restricting email access on computers used to initiate ACH payments.

Company Name Identification

The Originator is required under the *Rules* to ensure a clear source identification of an ACH transaction. Specifically, the *Rules* require the Originator to populate the Company Name Field with the name by which it is known and readily recognized by the Receiver of the entry. When this company name appears on the account holder's statement, it should be easily recognizable by the account holder and receiver of the debit/credit transaction.

Proper Use of Standard Entry Class Code

The authorization requirements specified within the *Rules* address the minimum requirements needed for authorization of various types of ACH transactions. In the case of Fulton Bank customers, we allow our Originators to initiate PPD (Prearranged Payments and Deposit) and CCD (Corporate Credits and Debit) entries. A PPD Entry is originated by an organization to or from a consumer account and a CCD Entry is originated by an organization to or from a non-consumer account. Any other standard entry class codes will require approval from Fulton Bank.

Authorization Retention

An authorization for a debit or credit entry must be in writing, and signed or similarly authenticated by the Receiver. Authorization must be retained by the Originator for a period of two years following the termination or revocation of the authorization. In the case of a paper authorization that has been signed by the Receiver, the Originator must retain either the original or a copy of the signed authorization. This authorization may be obtained in an electronic format that (1) accurately reflects the information in the record, and (2) is capable of being accurately reproduced for later reference, whether by transmission, print or otherwise. At the request of Fulton Bank, the Originator must provide a copy of the authorization within ten banking days.

Authorization Requirements for Consumer Entries (PPD)

For PPD entries, the Originator should ensure that an authorization is clear and readily understandable by the consumer account holder. The authorization should also include the account number, account type (Demand Deposit Checking Account or Savings Account), bank routing number of the consumer account holder (i.e. a copy of the account holder's check ensures the numbers are accurately obtained) and indicate the types of entries (Debits, Credits, or both) permitted. The consumer account holder must date and sign, or similarly authenticate the authorization to validate the company's authorization to initiate transactions on their account. Authorizations should include directions on how to revoke the authorization, the amount of the debit entry, and the date on which the debit(s) will occur. According to the *Rules*, Companies are responsible for ensuring the authorization contains "clear and readily understandable terms." An authorization that is not clear and readily understandable as to its terms (including the amount or timing of debits) does not satisfy the requirements of the *Rules* and will be considered an invalid authorization. Each Company should review their authorizations to ensure the requirements of the *NACHA Operating Rules* are met. Obtaining appropriate authorizations will help protect your company as the Originator in the event of a return sent back as "unauthorized." Authorization must be retained by the Originator for a period of two years following the termination or revocation of the authorization.

Authorization Requirements for Corporate Entries (CCD)

As with PPD entries, the Originator must obtain authorization for all credit and debit CCD entries. The Originator must enter an agreement with each Receiver of the CCD entry, under which the Receiver has agreed to be bound by the *NACHA Operating Rules*. The agreement should clearly state the representation of credits and/or debits to the corporate customer account.

Notice of Change in Amount/Change in Debiting Date for Recurring Debits

For recurring debits, when the debit amount changes, the *Rules* require the Originator to notify the account holder/receiver within ten (10) calendar days before the scheduled transfer date. An Originator that changes the scheduled date in which debit entries are to be initiated to the Receiver must notify the account holder in writing at least seven (7) calendar days before the first entry is scheduled to be debited from their account. Variations in debiting dates due to Saturdays, Sundays, or holidays are not considered to be changes in the scheduled dates.

Prenotification Entries

A prenotification is a zero-dollar entry generated to validate an account held at a Receiving Depository Financial Institution (RDFI). Companies may originate prenotifications; however, they are not required under the *Rules*. A prenotification is a tool to ensure the account information given by the receiver is accurate prior to initiating a live dollar transaction. If the Originator chooses to initiate a prenotification, they must wait three (3) banking days prior to initiating the live dollar transaction.

Notifications of Change Requirements

A Notification of Change (NOC) is a zero-dollar entry sent by the RDFI to the Originating Depository Financial Institution (ODFI) to alert the Originator of changes to the Receiver's account. Under the *NACHA Operating Rules*, the Originator is required to make the changes specified in the NOC within six (6) banking days of receipt of the NOC information or prior to initiating another entry to the Receiver's account.

Receiving ACH Returns and Re-initiation of Entries

Under the *NACHA Operating Rules*, an Originator may re-initiate an entry that was previously returned if (1) the entry has been returned for insufficient (R01) or uncollected funds (R09); (2) the entry has been returned for stopped payment and re-initiation has been authorized by the account holder; or (3) the ODFI (Fulton Bank) has taken corrective action to remedy the reason for the return. As a corporate customer, any returns received should be resolved immediately and re-initiation of the same entry should not be transmitted unless one of the three reasons above has occurred. An Originator must not re-initiate an entry that has been returned for insufficient or uncollected funds more than two times following the return of the original entry.

Stop Payments Made by a Consumer or Corporate Customer

A stop payment may be placed on the RDFI's system for all future transactions relating to one Originator for all incoming transactions. Originators (Corporate Customers) should train their internal staff accordingly to ensure the understanding that multiple stop payments could be returned. Stop payments should not be re-initiated into the system unless a new authorization has been obtained.

Unauthorized/Revoked Entries by a Consumer or Corporate Customer

An unauthorized or revoked entry may be returned if the customer believes that he/she did not authorize a payment. According to the *Rules*, a new authorization should be obtained prior to re-initiating an entry that you received back as unauthorized or revoked.

Reversing an ACH File or an ACH Entry

An Originator may reverse a file if the file is erroneous or duplicate. The Originator may transmit the reversing file within five (5) banking days after the Settlement Date for the entries within the duplicate or erroneous file. The word "REVERSAL" should be placed in the Company Batch Header Field and the Originator must initiate a correcting file along with the reversing file. A reversal is commonly used in situations of fraud whereby the Originator attempts to recover fraudulent funds initiated and should be initiated within 24 hours of the discovery of the error. Only an Originator may reverse an entry. The Originator should notify the account holder/receiver of the reversing entry and give the reason for the reversing entry no later than the Settlement Date of the reversing entry. A file or entry that (1) is a duplicate of an entry previously initiated by the Originator or ODFI; (2) orders payment to or from a Receiver different than the Receiver intended to be credited or debited by the Originator; (3) orders payment in an amount different than was intended by the Originator; or (4) is a PPD credit entry satisfying each of the following criteria: (i) the PPD credit entry is for funds related to a Receiver's employment; (ii) the value of the PPD credit is fully included in the amount of a check delivered to the same Receiver at or prior to the Receiver's separation from employment; or (iii) the PPD credit entry was transmitted by the Originator prior to the delivery of the check to the Receiver.

Risk Management and Assessment Requirements of Fulton Bank

This change updates the *Rules* to codify additional risk management practices regarding (1) the performance of due diligence with respect to Originators; (2) the assessment of the nature of the Originator's ACH activity and the risk it presents; and (3) the establishment of procedures to monitor an Originator origination and return activity and to enforce exposure limits and restrictions on the types of ACH transactions that may be originated. Originators should understand the necessity of the risk management changes that have been applied to the *Rules*. Fulton Bank, as an ODFI, may establish additional risk management procedures such as requiring an audit of its Originator's activity be performed, closely monitoring the return volume of its originators, and assessing the risk associated with the type of ACH activity performed by each Originator. Fulton Bank may also limit the types of standard entry class codes which can be originated using Fulton Bank's routing number.

Return Rate Reminders

Unauthorized Return Rate Threshold - The current return rate threshold for unauthorized debit Entries (Return Reason Codes R05, R07, R10, R11*, R29 and R51) is 0.5 % of the total Entries originated.

Administrative and Overall Debit Return Rates - This Rule established a guideline for an Originator's administrative return rate of 3% or below of the total Entries originated. The guideline applies to debit Entries returned due to administrative or account data errors (Return Reason Codes R02, R03 and R04). Additionally, this Rule also establishes an acceptable guideline for an Originator's overall debit Entry return rate of 15% or below of the total Entries originated (excluding RCK entries).

Return rates that exceed these guidelines may prompt an inquiry and review process by NACHA and the engagement of an industry review panel to evaluate the facts behind an Originator's ACH activity. Return rates above these levels may provoke a NACHA evaluation but may not result in a *Rules* violation or a *Rules* enforcement proceeding.

NOTE: We suggest a prudent review of unauthorized, administrative and overall debit return Entries and return rates within your company. Ongoing monitoring of your returns and return rates will ensure your company's compliance with the Rules. If you have any questions or concerns regarding your company's return rates, please contact Fulton Bank.

NACHA Enforcement Authority - This Rule adds more options for which NACHA may begin an initial investigation or *Rules* enforcement proceeding when an entity originates an excessive number of unauthorized Entries. This could result in increased investigations of Originator activity, and could ultimately result in fines passed on to those Originators.

This 2023 NACHA Rules notification provides a summary of changes to the NACHA Operating Rules & Guidelines ("Nacha Rules"), listed chronologically in the order of effective date. For further information we recommend that you obtain a copy of the 2023 NACHA Operating Rules and Guidelines. The Nacha Rules are published annually and may be referenced or ordered at www.nacha.org/store. More detailed information regarding these changes may also be found at www.nacha.org/rules/operating-rules.

2022 Revisions to the NACHA Rules

[Increasing the Same Day ACH Dollar Limit](#) - Effective 03/18/2022

This rule will continue to expand the capabilities of Same Day ACH. Increasing the Same Day ACH dollar limit to \$1 million per payment is expected to improve Same Day ACH use cases, and contribute to additional adoption. Originators Impact: These ACH participants should discuss with their financial institution whether and when originating same-day debit and/or credit entries up to \$1 million is appropriate for their businesses.

[Supplementing Data Security Requirements \(Phase 2\)](#) - Effective 06/30/2022

This rule supplements previous ACH Security Framework Data protection requirements by explicitly requiring large, non-FI Originators, Third-Party Service Providers (TPSPs) and Third-Party Senders (TPSs) to protect deposit account information by rendering it unreadable when it is stored electronically.

[Micro-Entries \(Phase 1\)](#) - Effective 09/16/2022

This Rule will define and standardize practices and formatting of Micro-Entries, which are used by some ACH Originators as a method of account validation.

[Third-Party Sender Roles and Responsibilities](#) - Effective 09/30/2022

The overarching purpose of these Rules is to further clarify the roles and responsibilities of Third-Party Senders (TPS) in the ACH Network by; Addressing the existing practice of Nested Third-Party Sender relationships, and; Making explicit and clarifying the requirement that a TPS conduct a Risk Assessment. The two Rules will become effective September 30, 2022, with a 6-month grace period for certain aspects of each rule.

2023 Upcoming Revisions to the NACHA Rules

[Micro-Entries \(Phase 2\)](#) - Effective March 17, 2023 The Micro-Entry Rule defines and standardizes practice and formatting of Micro-Entries, which are used by some ACH Originators as a method of account validation. • Originators of Micro-Entries will be required to use commercially reasonable fraud detection, including the monitoring of Micro-Entry forward and return volumes.

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