

ACH BUSINESS PRACTICES OPERATING GUIDE

1. Authorizations.

- In the case of Debit Entries to a Consumer Account, the authorization must be in writing and signed or similarly authenticated by the Consumer. The similarly authenticated standard permits signed, written authorizations to be provided electronically, and the authorization process must evidence both the Consumer's identity and his assent to the transaction.
- With respect to the use of electronic authorizations, an electronic authorization must be able to be displayed on a computer screen or other visual display that enables the Consumer to read the communication. The writing and signature requirements are satisfied by compliance with the Electronic Signatures in Global and National Commerce Act (15 U.S.C. §7001 et seq.), which defines electronic records (as contracts or other records created, generated, sent, communicated, received, or stored by electronic means) and electronic signatures. Electronic signatures include, an electronic sound, symbol, process, attached to or logically associated with contract or other record executed or adopted by a person with the intent to sign.
- The authorization must be readily identifiable as an authorization, must clearly and conspicuously state its terms, and must provide that Consumer may revoke the authorization by notifying Merchant in the manner specified in the authorization.
- Merchant must provide each Consumer with an electronic or hard copy of the Consumer's authorization for all Debit Entries to be initiated to a Consumer Account.
- Merchant must retain the original or a copy that is readily and accurately reproducible of each authorization of a Consumer for two years from the termination or revocation of the authorization. The authorization may be retained as an electronic record that (1) accurately reflects the information in the record, and (2) is capable of being accurately reproduced for later reference, whether by transmission, printing or otherwise. In the case of TEL Entries, the Merchant must retain the original or copy of the written notice or the original or a duplicate audio recording of the oral authorization for two years from the date of the authorization of a Single Entry TEL Entry. For recurring TEL Entries, a Merchant must retain for two years from the termination or revocation of the authorization (1) the original or a duplicate audio recording of the oral authorization, AND (2) evidence that a copy of the authorization was provided to the Consumer.

Example – Consumer Authorization for Direct Payment via ACH (ACH DEBITS)

Direct Payment via ACH is the transfer of funds from a consumer account for the purpose of making a payment.

I (we) authorize _____ ("COMPANY") to electronically debit my (our) account (and, if necessary, electronically credit my (our) account to correct erroneous debits¹) as follows:

Checking Account / Savings Account (select one) at the depository financial institution named below ("DEPOSITORY"). I (we) agree that ACH transactions I (we) authorize comply with all applicable law.

Depository Name _____

Routing Number _____ Account Number _____

Amount of debit(s) or method of determining amount of debit(s) [or specify range of acceptable dollar amounts authorized]:

Date(s) and/or frequency of debit(s): _____

I (we) understand that this authorization will remain in full force and effect until I (we) notify COMPANY [insert manner of revocation, i.e., in writing, by phone, location, address, etc.] that I (we) wish to revoke this authorization. I (we) understand that COMPANY requires at least [X days/weeks] prior notice in order to cancel this authorization.²

Name(s) _____ Date _____

Signature(s) _____

¹ The NACHA Operating Rules do not require the consumer's express authorization to initiate Reversing Entries to correct erroneous transactions. However, Originators should consider obtaining express authorization of debits or credits to correct errors.

² Written debit authorizations must provide that the Receiver may revoke the authorization only by notifying the Originator in the time and manner stated in the authorization. The reference to notification should be filled with a statement of the time and manner that notification must be given in order to provide company a reasonable opportunity to act on it (e.g., "In writing by mail to 100 Main Street; Anytown, NY that is received at least three (3) days prior to the proposed effective date of the termination of authorization").

2020 NACHA — The Electronic Payments Association® All rights reserved.

No part of this publication may be reproduced, retransmitted, transferred or displayed, in any form or by any means, electronic or mechanical, including by photocopy, digital transmission, recording or any information storage and retrieval system, without the prior written permission of NACHA. Reprinted with permission.

2. Prearranged Payment and Deposit (PPD) Entries

- A PPD entry may be used for either recurring or non-recurring transactions to a Consumer's account, when the Originator has provided the Consumer with a written authorization that is readily identifiable as an ACH debit authorization and contains clear and readily understandable terms, which the Consumer has signed or similarly authenticated.
- Merchant must provide the Consumer a copy of the authorization for all debit entries.
- Merchant must retain the original or a reproducible copy of the Consumer's authorization for two years from the termination or revocation of the authorization.
- If the Consumer has authorized a PPD Entry from their account, the authorization must provide that Consumer may revoke the authorization by notifying Merchant in the manner specified in the authorization.
- If the amount of a debit entry to be initiated to a Consumer account differs from the immediately preceding debit entry relating to the same authorization, or differs from a preauthorized amount, the Merchant must send the Consumer written notice of the date and amount of the entry at least ten calendar days prior to the date on which the entry is scheduled to be initiated.
- A voice response unit (VRU) or automated response unit (ARU) may be used by the Consumer to authorize a PPD Debit entry in situations where the Merchant has provided the Consumer with a written authorization, including a minimum 4-digit code that is on the written authorization in the Consumer's possession, and the Consumer key enters this code to similarly authenticate the authorization. The authorization provided by the Merchant to the Consumer must meet the written authorization requirements of the NACHA Operating Rules, including that the authorization must be readily identifiable as an authorization, and must clearly and conspicuously state its terms. The Merchant (Originator) must retain a record of any authentication code relayed by the Consumer in the manner the Consumer relayed the authorization.
- Merchant must obtain the Consumer's authorization for a Return Fee Entry originated using the PPD Standard Entry Class Code by either (1) obtaining the Consumer's written authorization, or (2) providing the Consumer with the required notice.
- Merchant may not use a one-time PPD Entry for the conversion of a check received at the point-of-purchase rather than processing such transaction as a POP Entry.

3. Telephone-Initiated (TEL) Entries.

- Merchants originating Single-Entry debits to Consumer accounts may obtain an oral authorization for such an entry from the Consumer via the telephone. These Single-Entry debit-only transactions, which must utilize the TEL Standard Entry Class Code, may only be originated when either (1) there is an existing relationship between Merchant and the Consumer, or (2) there is no existing relationship between Merchant and the Consumer, but the Consumer has initiated the telephone call.
- A TEL entry may not be used by a Merchant when there is no existing relationship between Merchant and the Consumer, and Merchant has initiated the telephone call. Merchant and Consumer are considered to have an existing relationship when either (1) there is a written agreement in place between Merchant and the Consumer for the provision of goods or services (e.g., the Consumer has an insurance policy with Merchant), or (2) the Consumer has purchased goods or services from Merchant within the past two years. For purposes of the Rules, an affiliate of a Merchant that has an existing relationship with a Consumer is not deemed to have such an existing relationship with the Consumer with respect to TEL entries.
- A TEL entry may be transmitted by Merchant pursuant to an oral authorization that is obtained from the Consumer via the telephone to affect the transfer of funds from a Consumer Account of the Consumer.
- In the case of Single Entry TEL Entries, the Consumer's authorization must be readily identifiable as an authorization and must clearly state its terms. The following minimum information must be included as part of the authorization:
 - The date on or after which the ACH Debit to the Consumer's account will occur;
 - The amount of the transaction;
 - Consumer's name;

- A telephone number for Consumer inquiries that is answered during normal business hours;
- The method by which the Consumer may revoke the authorization;
- The date of the Consumer's oral authorization; and
- A statement by Merchant that the authorization obtained from the Consumer is for a Single-Entry ACH Debit.
- In the case of Recurring TEL Entries, the Consumer's authorization must be readily identifiable as an authorization and must clearly state its terms. The following minimum information must be included as part of the authorization:
 - The amount of the transaction;
 - The timing (including the start date), number, and/or frequency of the transactions
 - Consumer's name;
 - A telephone number for Consumer inquiries that is answered during normal business hours;
 - The method by which the Consumer may revoke the authorization
 - The date of the Consumer's oral authorization
- For an oral authorization or either Single or Recurring TEL Entries obtained over the telephone to be in accordance with the requirements of the NACHA Operating Rules, (1) Merchant must state clearly during the telephone conversation that the Consumer is authorizing an ACH debit entry to his account, (2) Merchant must express the terms of the authorization in a clear manner, and (3) the Consumer must unambiguously express consent. Silence is not express consent.
- A Merchant that chooses the option to provide the Consumer with written notice confirming the Consumer's oral authorization of a Single Entry TEL Entry must disclose to the Consumer during the telephone call the method by which such notice will be provided. The written notice must include, at a minimum, the seven pieces of information required to be disclosed during the telephone call, as described above. Merchant should understand that the term "provide" is intended to mean that Merchant has utilized a medium (e.g., U.S. mail, fax, or other mail delivery method) to send the written notice to the Consumer. (Note: Any written notice or disclosure required by the NACHA Operating Rules may be provided in electronic form, including e-mail. This includes the notice for TEL. Please note, however, that state and federal laws may require Consumer consent before using electronic notices/disclosures.) The term "provide" does not imply receipt of such notice by the Consumer. Merchant must understand that, when written notice is used to confirm the authorization, the Consumer must be afforded the right to contact Merchant, using the telephone number provided, to correct any erroneous information contained within the notice. (NOTE: Compliance with the NACHA Operating Rules does not eliminate the obligation to comply with other applicable laws.)
- An Merchant using a voice response unit (VRU) to capture a Consumer's authorization for a TEL entry must understand that key- entry responses by the Consumer to input data and to respond to questions does not qualify as an oral authorization. A VRU may be used by the Consumer to key enter data and to respond to questions, provided that the actual authorization by the Consumer is provided orally.
- Merchant must either (i) tape record the oral authorization, or (ii) provide the Consumer with written notice confirming the oral authorization prior to the Settlement Date of the Entry for Single-Entry TEL entries.
- Authorization for Recurring TEL Entries need to meet the writing and signature requirement of the e-Sign Act
- For Single Entry TEL Entries, Merchant must retain the original, copy, or other accurate record of the Consumer's oral authorization or a copy of the written notice confirming the Consumer's oral authorization for two years from the date of the authorization. At the request of the ODFI, Merchant must provide the original or copy of the authorization to the ODFI for its use or for the use of an RDFI requesting the information.
- For Recurring TEL Entries, Merchant must retain for two years from the termination or revocation of the authorization (i) the original or copy of the oral authorization, AND (ii) evidence that a copy of the authorization was provided to the Consumer in compliance with Regulation E. At the request of the ODFI, Merchant must provide the original or copy of the authorization to the ODFI for its use or for the use of an RDFI requesting the information.
- For each TEL Entry, Merchant must employ commercially reasonable procedures to verify the identity of the Consumer. Merchant should also further confirm the Consumer's identity by verifying pertinent information (e.g. past buying history, mother's maiden name, account passwords, challenge responses, etc.)

- For each TEL Entry, Merchant must utilize commercially reasonable procedures to verify that routing numbers are valid.
- A TEL entry should not be initiated in situations where the Consumer has provided Merchant with a standing authorization for the transmission of multiple but non-recurring ACH debit entries to his account (e.g., the Consumer has provided a written authorization to his brokerage firm to debit the Consumer for occasional securities purchases). Although the purchase may be transacted via telephone, authorization and banking information were provided via a separate written authorization. In this situation, ACH debit activity should be originated using the PPD Standard Entry Class Code as defined by the NACHA Operating Rules.
- The Payment Type Code in the Entry Detail Record is used to indicate whether a TEL Entry is a recurring or single entry. For Recurring TEL Entries, this field must contain the value "R", and for Single Entry TEL Entries, this field must contain the value "S" or be space-filled.
- The Standard Entry Class (SEC) Code PPD will be used to refund dollars to a Consumer who originally authorized their transaction via the telephone. TEL transactions are debit only transactions.

4. Internet-Initiated (WEB) Entries.

- Merchant initiating debit entries (both recurring and Single-Entry) to a Consumer account pursuant to an authorization that is obtained from the Consumer via the Internet are required to utilize the WEB (Internet-Initiated Entry) Standard Entry Class (SEC) Code. This SEC Code is intended to address unique risk issues that are inherent to the Internet payment environment through requirements for added security procedures and obligations.
- A WEB entry may be transmitted by Merchant pursuant to an authorization that is obtained from the Consumer via the Internet to affect a transfer of funds from a Consumer Account of the Consumer. The authorization must be displayed in a readable manner on a computer screen or other visual display, and it should prompt the Consumer to print a hard copy of the authorization. Further, the authorization must readily identify (i) the transaction as an ACH debit authorization; (ii) terms of the transaction; and (iii) a method to revoke authorization by notifying Merchant in the manner prescribed.
- The SEC Code PPD will be used to refund dollars to a Consumer who originally authorized their transaction via the Internet. WEB transactions are debit only transactions.
- For each WEB Entry, Merchant is required to employ a commercially reasonable fraudulent transaction detection system to screen each Entry. This includes validation of the account to be debited for the first use of such account number, and for any subsequent change(s) to the account number.
- For each WEB Entry, Merchant is required to employ commercially reasonable methods of authentication to verify the identity of the Consumer.
- For each Web Entry, Merchant is required to use commercially reasonable procedures to verify that routing numbers are valid.
- Merchant must establish a secure Internet session with each Consumer utilizing a commercially reasonable system, technology, practice, or procedure that corresponds to commonly-accepted commercial practices among commonly situated parties conducting similar types of transactions. prior to the Consumer's key entry and through transmission to Merchant of any banking information, including, but not limited to, the Consumer's routing number, account number, and personal identification number (PIN) or other identification symbol.
- Merchant shall conduct or have conducted annual audits to ensure that the financial information it obtains from Consumer's is protected by security practices and procedures that include, at a minimum, adequate levels of (1) physical security to protect against theft, tampering, or damage, (2) personnel and access controls to protect against unauthorized access and use, and (3) network security to ensure secure capture, storage, and distribution.
- The WEB Standard Entry Class Code applies to both recurring and single entries. For Recurring WEB Entries, the Payment Type Code must contain the value "R", and for Single Entry WEB Entries, the Payment Type Code must contain the value "S".
- Merchants must retain records of a Consumer's authorization for a period of two years after the termination or revocation of the authorization, including a record of the authorization and authentication. The Merchant must be able to provide these of the ODFI upon its request.
- Website language recommended for required Consumer acknowledgement prior to Consumer's initiation of the WEB transaction:
 - For Single WEB Entry:

Bank Name: [name of the Consumer's bank]
Consumer's Bank's ABA Routing Number: [Consumer's bank's ABA routing number]
Bank Account Type: [checking, savings]
Bank Account Number: [the Consumer's bank account number]

By clicking the Authorize button below, I authorize [merchant's name] to initiate an electronic debit to my [bank account type] account on [month, day, year] for the amount of [\$X.XX] for [description of the transaction].

If you wish to cancel this transaction, click the Cancel button.

[Authorize Transaction] [Cancel Transaction]

- For Recurring WEB Entries:

Bank Name: [name of the Consumer's bank]
Consumer's Bank's ABA Routing Number: [Consumer's bank's ABA routing number]
Bank Account Type: [checking, savings]
Bank Account Number: [the Consumer's bank account number]

By clicking the Authorize button below, I authorize [merchant's name] to initiate electronic debits to my [bank account type] account starting on [month, day, year] and on the [day of the month] of each month following through [month, day, year] for the amount of [\$X.XX] for [description of the transaction].

This authorization is to remain in full force and effect unless I provide written notification to [merchant name] at [address] within an appropriate timeframe as to allow [merchant name] to act on it.

If you wish to cancel this transaction, click the Cancel button.

[Authorize Transaction] [Cancel Transaction]

5. Corporate Credit or Debit Entry (CCD) Entries

- An credit or debit Entry originated by a Merchant to or from their account or the account of an Organization (a corporation, partnership, association, or other entity, governmental or private, or a natural person, provided that, in the case of a natural person, any account of such natural person to be debited or credited in respect of an Entry is maintained primarily for commercial and not for personal, family, or household purposes).
- CCD Entries are debit or credit entries used to facilitate business-to-business (B2B) ACH payments.
- The Merchant must receive authorization to debit or credit the Customer's account.
- The CCD authorization is not required to be in a specific form. However, an agreement must be in place that binds the Customer to the NACHA Rules. This trading partner agreement should contain the authorization requirements and procedures as determined by the parties; the companies negotiate the terms. As a best practice, it is recommended the Merchant follow the same authorization requirements that would apply if the Customer were a Consumer.

6. Consumer Account – Notice by Merchant to Consumer of Variable Debits

- If the amount of a debit Entry to be initiated to a Consumer Account differs from the amount of the immediately preceding debit Entry relating to the same authorization or from a preauthorized amount, Merchant must send the Consumer written notification of the amount of the Entry and the date on or after which the Entry will be debited. Merchant must send the Consumer written notice at least ten calendar days prior to the date on which the Entry is scheduled to be initiated.
- If Merchant informs the Consumer of the Consumer's right to receive notification concerning a change in the amount of a Debit Entry, the Consumer may choose to receive notice only if the amount of the Entry falls outside a specified range or if the Entry differs from the most recent entry by more than an agreed upon amount.
- If Merchant changes the date on or after which Entries to be initiated by Merchant are scheduled to be debited to a Consumer's account, Merchant shall send to the Consumer written notification of the new date on or after which Entries initiated by Merchant are scheduled to be debited to the Consumer's account. Such notification shall be sent at least seven calendar days before the first Entry to be affected by the change is scheduled to be debited to the Consumer's account. Variation in debiting dates due to Saturdays, Sundays, or holidays are not considered to be changes in the scheduled dates.

7. Returns

- An ACH Return is an ACH Entry that the RDFI, or ACH Operator, is unable to post for reasons defined by the Return Reason Code.
- The reason for each Return is included with the Entry in the form of a "Return Reason Code". One such common example of an ACH Return is an Entry that is sent back because the Customer's account has insufficient funds (Return Reason Code R01).
- Most items are returned no later than the opening of business on the second Banking Day following the Settlement Date of the Entry.
- Some items may be returned up to 60 days following date of Settlement. Examples include:
 - The consumer claims the Entry is unauthorized
 - The consumer places a stop payment on the transaction
- The Unauthorized Return Rate threshold is 0.5%. This applies to Return Reason Codes R05, R07, R10, R29 and R51. Return Reason Code R11 will be included 4/1/2021. An Administrative Returns Rate threshold of 3.0% exists for R02, R03 and R04 Returns. And an 'overall' Return rate of 15% is applied to all debit Entries that are returned for any reason.
- Merchants exceeding these thresholds may be required to identify why they are exceeding the threshold and provide specific information regarding how the entity will come into compliance with this *Rules* provision.
- Failure to provide required information, the failure to reduce the Return rate, or the recurrence of this issue may result in enforcement action under the ACH *Rules*.

8. Reinitiating of Returned Entries.

- For all Entries, an Entry that has been returned may not be reinitiated unless (1) (a) the entry has been returned for insufficient or uncollected funds; (b) the Entry has been returned for stopped payment and reinitiation has been separately authorized by the Customer; or (c) the Merchant or ODFI has taken corrective action to remedy the reason for the return, and (2) the Entry is reinitiated within 180 days after the Settlement Date of the original Entry. An Entry that has been returned for insufficient or uncollected funds may be reinitiated no more than two times following the return of the original Entry.
- All of the following are considered improper Reinitiation practices
 - Initiating an Entry to the same Customer in an amount greater than the amount of the previously Returned Entry in payment or fulfillment of the same underlying obligation plus an additional fee or charge.
 - Initiating one or more Entries to the same Customer in an amount(s) less than the original Entry in payment or fulfillment of a portion of the same underlying obligation.
 - Reinitiating any Entry that was Returned as unauthorized.
- A Merchant 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 Customer. The Merchant must Transmit the new Entry within 60 days after the Settlement Date of the Return Entry.

9. Notifications of Change (NOC)

- The Merchant must make the changes specified in the NOC within six Banking Days of receipt or prior to initiating another Entry to the Customer's account, whichever is later.
- The Merchant may choose to make the changes specified in any NOC received with respect to Single-Entry TEL or Single-Entry WEB entries.
- NOC transactions can be identified by the SEC Code "COR".

10. Electronic Records and Electronic Record Retention

- The Rules permit ACH participants to obtain and store ACH records electronically as an alternative to obtaining and retaining such documents in hard copy format. Specifically, the Rules allow any agreement, authorization, written

statement under penalty of perjury, or other record required by the Rules to be in writing to be obtained and retained in either hard copy or electronic form.

- Electronic records include agreements, authorizations, written statements under penalty of perjury, or other records created, generated, sent, communicated, received, or stored by electronic means. Electronic records may have a signature requirement.
- Electronic signatures are electronic sounds, symbols, or processes attached to or logically associated with an agreement, authorization, written statement under penalty of perjury, or other record executed or adopted by a person with the intent to sign the record. These writing and signature requirements can be satisfied by compliance with the Electronic Signatures and Global National Commerce Act (E-Sign Act). Merchant should be aware that any record that is signed according to the terms of an applicable state version of the Uniform Electronic Transaction Act is considered to have been signed in conformance with the terms of the E-Sign Act.
- To satisfy the requirements of the NACHA Operating Rules (and Regulation E for preauthorized debits), electronic signatures must "similarly authenticate" the electronic records. The authentication method chosen must evidence both the signer's identity and his assent to the terms of the record. For purposes of the NACHA Operating Rules, ACH records may also be similarly authenticated using the same authentication methods currently prescribed for Customer debit authorizations – that is, the record may be similarly authenticated via the Internet through the use of a digital signature, PIN, password, shared secret, etc., or a hard copy record may be authenticated via the telephone by the Customer's speaking or key-entering a code provided on the record.
- Any other written notice or disclosure required by the NACHA Operating Rules but not requiring a signature may also be provided in electronic form, including e-mail. (This includes the notice for TEL entries. Please note that state and federal laws may require Customer consent before using electronic notices/disclosures.)
- Merchant is permitted to retain copies of ACH records in electronic form, provided that the electronic record (1) accurately reflects information contained within the record, and (2) is capable of being accurately reproduced for later reference, whether by transmission, printing, or other reproduction.
- If Merchant chooses to utilize electronic communication methods for the retention of ACH records should implement practices and procedures to ensure that electronic records of ACH documents accurately reflect the information contained within the document and that both the electronic record and a recorded record of the authentication can be accurately reproduced for future reference.
- Merchant should be aware that other ACH participants may also utilize electronic methods to obtain and retain records of ACH documents. In such cases, Merchant can expect to receive electronic versions, rather than hard copies, of documents that they request from other ACH participants.

11. ACH Security

- The ACH Rules require all Merchants, Third-Party Service Providers and Third-Party Senders to establish, implement and update, as appropriate, policies, procedures and systems with respect to the initiation, processing and storage of ACH Entries that are designed to:
 - Protect the confidentiality and integrity of Protected Information until destruction;
 - Protect against anticipated threats or hazards to the security or integrity of Protected Information until its destruction, and
 - Protect against unauthorized use of Protected Information that could result in substantial harm to a natural person.
- Merchant's policies, procedures and systems must include controls that comply with applicable regulatory guidelines on access to all systems that initiate, process and store Entries.
- Merchant should implement data security and controls surrounding ACH information as those set out in PCI requirements related to credit card acceptance.
- Merchant needs to evaluate its current security policies, procedures and systems to ensure the company identifies safeguards for Protected Information – non-public information, including financial information of customers.
 - Document its security policies, procedures and systems related to safeguarding protected ACH payment information.
 - Maintain its security policies, procedures and systems related to safeguarding protected ACH payment information.
- ACH Security will expand, effective 6/30/2021, by requiring large Merchants, Third-Party Service Providers and Third-

Party Senders to protect account numbers by rendering them unreadable when stored electronically. The rule aligns with existing language contained in PCI requirements.

- The rule applies only to account numbers collected for or used in ACH transactions and does not apply to the storage of paper authorizations.
- It will initially apply to those Merchants, Third-Party Service Providers and Third-Party Senders with annual ACH volume of 6 million transactions or greater. Effective 6/30/2022 a second phase will apply to those with annual ACH volume of 2 million transactions or greater.

[end of document]