

## 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.
- The authorization must include the following:
  - Language that identifies it is for a single Entry, multiple (Unscheduled) Entries, or Recurring (Scheduled) Entries;
  - Identifies the amount of the Entry(ies) or a reference to a method to determine the amount;
  - The timing (including the start date), number, and/or frequency of the Entries;
  - The Receiver's name or identity;
  - The account funds will be taken/withdrawn from;
  - The date authorization was given
  - Provide that the Receiver may revoke the Authorization only by notifying the Originator in the manner specified in the Authorization
- 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.
- An Authorization is required for a single Entry or when there are Recurring Entries (where funds are withdrawn at regular intervals without further action from the Consumer). Effective September 17, 2021, Originators will be able to obtain a "Standing Authorization".
- A "Standing Authorization" is an advance authorization by a Consumer of future "unscheduled" Entries to the Receiver's account. The Standing Authorization will identify how the Receiver is to contact the Originator to request a payment be made..
- The "Standing Authorization" is not required to be a signed form. It may be obtained orally over the telephone. Authorization requirements would be the same as for a TEL Entry. Subsequent Entries do not have to be received in the same manner as the original authorization; they may be received via a website.
- Regardless of the manner in which the "Standing Authorization" is received, Subsequent Entries do not have to be received in the same manner. For example, a "Standing Authorization" may be obtained as a signed form. The Consumer may call the Originator over the telephone or log in to a website when they want to submit a subsequent payment.
- In the case of Single Entry 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 authorization. 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.

For CCD entries, the Originator must be able to provide an accurate record evidencing the Receiver's Authorization OR contact information that, at a minimum, includes the Originator's name and phone number or email address for inquiries regarding Authorization of Entries

### 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 debits<sup>1</sup>) as follows:

- a single (one-time) entry
- recurring entries (that recur at substantially regular intervals without my affirmative action to initiate future entries)
- subsequent entries (initiated under the terms of my standing authorization) that require my affirmative action to initiate those future entries

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) including the start date and/or frequency of debit(s):<sup>2</sup> \_\_\_\_\_

Action(s) the Receiver must take to initiate a subsequent entry to a standing authorization<sup>3</sup>

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.<sup>4</sup>

Name(s) \_\_\_\_\_ Date \_\_\_\_\_

Signature(s) \_\_\_\_\_

<sup>1</sup> 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.

<sup>2</sup> That this information will be defined by the Originator

<sup>3</sup> That this information will be defined by the Originator

<sup>4</sup> 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").

## 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.
- 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.
- A sample authorization is available upon request.

## 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 debit-only transactions, which must utilize the TEL Standard Entry Class Code, may only be originated when there is either (1) an existing relationship between Merchant and the Consumer, or (2) 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.
- For an oral authorization 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 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.
- An authorization that is created by voice-to-text technology is not considered an oral Authorization if it is either a) visually reviewed and confirmed by the Consumer Receiver prior to delivery to the Originator, or b) used by the Consumer Receiver without prompting by the Originator.
- If the oral Authorization is obtained over the Internet that is not a telephone call, needs to meet the risk and security

requirements that apply to WEB Entries and will use a WEB Standard Entry Class Code.

- Authorization for TEL Entries meets the writing and signature requirement of the e-Sign Act if it: 1) ensures the signature is an electronic sound, symbol or process that is attached or associated with a contract; 2) is executed by a person with the intent to sign the contract; and 3) the contract is created, generated, sent, communicated, received or stored by electronic means.
- 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.
- 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.
- Authorization samples are available upon request.

#### 4. Internet-Initiated (WEB) Entries.

- Merchants 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 or Wireless Device 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 or Wireless Device to affect a transfer of funds from a Consumer Account of the Consumer.
- 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. If the merchant is PCI compliant, a separate audit is not required.
- 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".
- 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.
- Sample website language is available upon request.

#### 5. Corporate Credit or Debit Entry (CCD) Entries

- A 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. The authorization/Trading Partner Agreement could be a signed form, accepted over the Internet/Wireless Device, or over the telephone. 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, R11, R29 and R51. 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 (Return Reason Code R01) or uncollected funds (Return Reason Code R09); (b) the Entry has been returned for stopped payment and reinitiation has been separately authorized by the Customer (Return Reason Code R08); 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 requires 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.
- Currently, this applies 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.

## 12. Micro-Entries

Effective September 16, 2022 NACHA will define a "Micro-Entry" as a credit or debit Entry used for the purpose of verifying a Receiver's account or an individual's access to an account.

An Originator may originate one or more Micro-Entries to a Receiver's account prior to initiating credit or debit Entries to that account. A credit Micro-Entry must be in an amount less than \$1.00. One or more debit Micro-Entries must not exceed, in total, the amount of the corresponding credit Micro-Entries. If one or more debit Micro-Entries are sent to a Receiver's account, one or more credit Micro-Entries must be sent simultaneously so that the value of the credit entries are equal to or greater than the amount of the debit Micro-Entry(ies).

Micro-Entries must be submitted in a separate batch with the content "ACCTVERIFY" in the appropriate field.

The name of the Originator must reflect the same Originator that will be identified in future Entry(ies) to the Receiver's account.

Live entries may be sent to the Receiver's account as soon as the Originator's process for verifying the amount of the Micro-Entries has been completed.

On March 17, 2023 Originators of Micro-Entries will be required to use commercially reasonable fraud detection practices, including the monitoring of forward and returned Micro-Entry volumes.