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NOTICE OF AMENDMENTS
TO THE
2012 NACHA OPERATING RULES

April 27, 2012

SUPPLEMENT #1-2012

1. Dishonor of Return Entries

Effective Date: September 21, 2012

2. Data Passing

Effective Date: March 15, 2013

3. ODFI Return Rate Reporting

Effective Date: March 15, 2013

4. Incomplete Transactions and the Return of Funding Debit Entries

Effective Date: March 15, 2013

Supplement #1-2012 to the *NACHA Operating Rules*

On April 2, 2012, NACHA's Voting Membership approved four amendments to the *NACHA Operating Rules* ("*Rules*"): Dishonor of Return Entries; Data Passing; ODFI Return Rate Reporting; and Incomplete Transactions. The Dishonor of Return Entries change, which is a Pain Points - Phase Two issue, will become effective on September 21, 2012. The other amendments fall under Risk Management Topics and will become effective March 15, 2013.

This supplement provides ACH Network participants with a summary of the key components of each change, along with details regarding the technical changes to the 2012 *Rules* language. To ensure compliance with the most current rules, this Supplement should be used in conjunction with the 2012 *Rules*.

Dishonor of Return Entries

(Approved April 2, 2012 – Effective September 21, 2012)

SUMMARY

The Dishonor of Return Entries change will amend the *Rules* to eliminate a "pain point" in the *Rules* that requires the ODFI or Originator to have suffered a loss before being able to dishonor an untimely return. This change will eliminate a requirement that no longer adds value to ACH Network users and therefore improves ACH processing efficiency.

Background

The *Rules* currently require a two-part test by an ODFI when determining whether it can dishonor a return entry as untimely: (1) the RDFI must have returned the entry outside the time limits prescribed by the *Rules*, and (2) the delay must have caused either the ODFI or the Originator to suffer a loss. This two-part test means there cannot be an automatic dishonor of an untimely return – the ODFI would have to individually make such a determination each time it receives a late return.

Payment finality plays a critical role in an ODFI's ability to manage its ACH risk and evaluate the credit-worthiness of its Originators for their ACH and other banking activity. Therefore, it is essential for both ODFI and Originator, through contract, to establish a definitive point in time at which both parties agree that funds can be considered "good funds." As a general industry practice, this occurs once the time frames have expired for automated returns through the ACH Network. At that point, ODFIs can assume that debits will not be returned, and can release the funds to their Originators if they have not already done so (although the debits may be subject to warranty claims). Beyond that point, funds from late returns might not be recoverable from the Originator, based on the terms of the Originator/ODFI agreement, and a loss could be suffered by the ODFI. For this reason, and for efficiency in processing, many financial institutions' systems automatically dishonor ACH entries returned in an untimely manner to facilitate the handling of these entries.

The removal of the requirement to have suffered a loss before dishonoring an untimely return recognizes that payment finality allows an ODFI to control risk and service its customer, and ultimately aligns the *Rules* with common industry practice for automated processing.

KEY COMPONENT OF RULE AMENDMENT

This amendment will remove language requiring an ODFI or its Originator to have suffered a loss before being able to dishonor an untimely return entry.

IMPACT TO PARTICIPANTS

ODFIs: This rule improves the efficiency with which ODFIs process dishonored returns and aligns the *Rules* with common industry practice by recognizing that late returns generally equate to a loss by the ODFI. Most ODFIs already have automated the processing of untimely returns. However, some ODFIs may have minor costs associated with educating staff and customers regarding this change, if they choose to modify their processing of untimely returns.

TECHNICAL SUMMARY

The change to the *Rules* language, as noted below, represents a modification to the 2012 *NACHA Operating Rules* that will become effective on September 21, 2012.

- *Article Two, Subsection 2.12.5.1 (Dishonor of Return by ODFI)* - removes language in item (a) requiring either the ODFI or Originator to substantiate a loss was suffered in order to dishonor the untimely return entry.

Implementation Date: **September 21, 2012**

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As approved April 2, 2012, effective September 21, 2012, the Rules are modified as follows for the rule change related to the Dishonor of Return Entries:

ARTICLE TWO

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

SUBSECTION 2.12.5.1 Dishonor of Return by ODFI

An ODFI may dishonor a Return Entry, with the exception of an IAT Return Entry, if:

(a) it can substantiate that the RDFI failed to return the Entry within the time limits established by these Rules, and such delay caused either the ODFI or Originator to suffer a loss;

▶ (a) *the RDFI failed to return the Entry within the time limits established by these Rules;*

(b) information in one or more of the following fields of the Return Entry is incorrect or missing:

(i) DFI Account Number

(ii) Original Entry Trace Number

(iii) Dollar Amount

(iv) Individual Identification Number/Identification Number

(v) Transaction Code

(vi) Company Identification Number

(vii) Effective Entry Date

(c) the Return Entry was misrouted;

(d) the Return Entry was a duplicate;

(e) the Return Entry is coded as the Return of an Erroneous Entry at the request of the ODFI, as permitted by Subsection 2.12.2 (ODFI Request for Return), but the ODFI did not make such a request; or

(f) the Return Entry is coded as a permissible Return Entry, as permitted by Subsection 3.8.3.5 (Late Return Entries for CCD or CTX Entries with ODFI Agreement), but the ODFI did not agree to accept the Return Entry.

To dishonor a Return Entry, the ODFI must Transmit a dishonored Return Entry complying with Appendix Four (Return Entries) to its ACH Operator within five Banking Days after the Settlement Date of the Return Entry.

Data Passing

(Approved April 2, 2012 – Effective March 15, 2013)

SUMMARY

The Data Passing Rule will prohibit sharing of certain customer information by Originators, Third-Party Service Providers and ODFIs for the purpose of initiating debit Entries that are not covered by the original authorization.

Background

The recently enacted Restore Online Shoppers' Confidence Act prohibits a merchant from initiating an Internet transaction unless the merchant has obtained certain authorization information, including account number and consumer's name and address, directly from the consumer. This law also prohibits a merchant from disclosing a customer's account number and other billing information to another merchant for use in an Internet-based sale. In addition, federal regulators have encouraged payment systems to implement rules to prohibit such practices.

In order to protect customers from such potentially confusing practices and to address requests by the Federal Trade Commission for NACHA to review this issue in the context of the ACH Network, NACHA will adopt a rule that is similar to those currently in effect in major card brand rules. This rule is broader in scope than the requirements of The Restore Online Shoppers' Confidence Act in that it is not limited to Internet transactions.

KEY COMPONENTS OF RULE AMENDMENT

This amendment revises the *Rules* to: 1) prohibit an ODFI from disclosing a consumer Receiver's account number or routing number to any third party for use in initiating a debit Entry that is not part of the original authorization; and 2) require the ODFI to ensure that the Originator and any Third-Party Service Provider do not disclose such information for use in initiating a debit Entry that is not part of the original authorization.

IMPACT TO PARTICIPANTS

Receivers: The rule is expected to benefit consumer Receivers by protecting their account information from use in connection with purported authorizations that they do not intend to give.

RDFIs: The rule is expected to reduce RDFIs' exception processing associated with unauthorized transactions and other customer service costs due to questionable transactions.

ODFIs, Originators and Third-Party Service Providers: The rule should have little or no effect on ODFIs, Originators, and Third-Party Service Providers, since most data passing activity is prohibited by The Restore Online Shoppers' Confidence Act.

TECHNICAL SUMMARY

Below is a summary of the impact of this rule change on the *NACHA Operating Rules*. Sections of the *Rules* that are affected by this amendment are also included below and reflect rule language as it will read upon implementation.

- Article Two, Subsection 2.3.4 (Restrictions on Data Passing) – Adds a new subsection to the *Rules* on authorization that:

(1) prohibits an ODFI from disclosing the Receiver's account number or routing number to any third party for such third party's use, directly or indirectly, in initiating a debit Entry that is not covered by the original authorization; and

(2) requires an ODFI to ensure that the Originator and any Third-Party Service Provider acting on behalf of the Originator or ODFI do not disclose the Receiver's account number or routing number to any third party for such third party's use, directly or indirectly, in initiating a debit Entry that is not covered by the original authorization.

Implementation Date: March 15, 2013

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As approved April 2, 2012, effective March 15, 2013, the Rules are modified as follows for the rule change related to Data Passing:

ARTICLE TWO

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

▶ **SUBSECTION 2.3.4 Restrictions on Data Passing [New Subsection]**

An ODFI must not disclose, and must ensure that the Originator and any Third Party Service Provider acting on behalf of the Originator or ODFI do not disclose, the Receiver's account number or routing number to any third party for such third party's use, directly or indirectly, in initiating a separate debit Entry.

ODFI Return Rate Reporting

(Approved April 2, 2012 – Effective March 15, 2013)

SUMMARY

The modification to the *Rules* for ODFI Return Rate Reporting will reduce the reporting period from 60 days to 30 days during which the ODFI has to reduce a return rate below the threshold before the initiation of a rules enforcement proceeding.

Background

ODFIs have demonstrated that they can reduce their Originators' return rates for unauthorized debits when they improve communications with customers, enhance authorization processes, and utilize industry tools. This rule change shortens the grace period for reducing an excessive return rate as an incentive for ODFIs to employ the techniques noted above more quickly and efficiently, while still affording ODFIs and their customers' a reasonable amount of time to act in such instances. By shortening the deadline by which an excessive rate of return must be resolved by an ODFI and its Originator, the ACH Network, as a whole, benefits through the introduction of fewer unauthorized debits into the payments system.

The current System of Fines procedures regarding this issue are unaffected by this amendment and will continue to be applied in a manner consistent with past practices. An ODFI that has an Originator with a return rate above 1 percent and that takes longer than 30 days to bring its rate down may be subject to a rules enforcement proceeding. An ODFI that receives a notice of a rules enforcement proceeding will have the same opportunity to respond to the notice as it does today.

KEY COMPONENT OF RULE AMENDMENT

This amendment will reduce the ODFI Return Rate Reporting period from 60 days to 30 days.

IMPACT TO PARTICIPANTS

All Participants: By shortening the deadline by which an excessive rate of return must be resolved by an ODFI and its Originator, the ACH Network, as a whole, benefits through the introduction of fewer unauthorized debits into the payments system.

RDFIs: RDFIs should receive fewer unauthorized entries, resulting in lower exception processing costs associated with the return of unauthorized entries and the response to customer service calls.

ODFIs: Some ODFIs, particularly those with inadequate risk management procedures, may incur incremental costs associated with development and implementation of additional policies and procedures to ensure their Originators' and Third Party Senders' compliance with the shortened grace period.

Originators and Third-Party Senders: Originators and Third-Party Senders with excessive return rates will be compelled by their ODFIs to take action more quickly to reduce their return rates and will likely incur costs in doing so.

TECHNICAL SUMMARY

The changes to the *Rules* language, as noted below, represents modifications to the *NACHA Operating Rules*.

- Article Two, Subsection 2.17.2.1 (Additional ODFI Action and Reporting When the Return Threshold is Exceeded) and Article Two, Subsection 2.17.2.2 (ODFI Reduction of Return Rate) – Reduces to 30 days from 60 days the time period during which an ODFI may reduce a return rate below the applicable threshold before a rules enforcement proceeding may be initiated.

- Appendix Ten, Subpart 10.2.2 (National Association Action on Receipt of Information Reported by ODFI) – Reduces the 60 day time period to 30 days before NACHA may initiate a rules enforcement proceeding against an ODFI when an Originator's or Third-Party Sender's unauthorized Entry return rate exceeds the threshold.

- Appendix Ten, Subpart 10.4.3 (Submission Requirements for Rules Enforcement Proceedings Initiated by the National Association) and Appendix Ten, Subpart 10.4.7.4 (Class 2 Rules Violation) – Reduces to 30 days the time period during which an ODFI may reduce a return rate below the applicable threshold before a rules enforcement proceeding may be initiated.

- Appendix Ten, Subpart 10.4.7.4 (Class 2 Rules Violation) - Revises the reference for the ODFI action time frame from 60 days to 30 days.

Implementation Date: March 15, 2013

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As approved April 2, 2012, effective March 15, 2013, the Rules are modified as follows for the rule change related to ODFI Reporting Requirements:

ARTICLE TWO

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

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SUBSECTION 2.17.2.1 Additional Reporting When the Return Threshold is Exceeded

▶ *SUBSECTION 2.17.2.1 Additional ODFI Action and Reporting When the Return Threshold is Exceeded*

When the Originator's or Third-Party Sender's return rate for unauthorized Entries, as calculated in Subsection 2.17.2 (ODFI Return Rate Reporting), exceeds one percent, the ODFI must also provide the National Association with the following information within the ten Banking Day time frame:

(a)   a detailed plan and timeline for reducing the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below one percent for unauthorized Entries within sixty days after receipt of the National Association's written request for information, as described within Subsection 2.17.2;

▶   *(a)   a detailed plan and timeline for reducing the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below one percent for unauthorized Entries within thirty days after receipt of the National Association's written request for information, as described within Subsection 2.17.2;*

(b) the address, telephone number, contact person of the Originator or Third-Party Sender, and, when such Originator or Third-Party Sender is a privately-held company, the following additional information: principal owner(s) and officers of the Originator or Third-Party Sender;

(c) a description of the nature of the business of the Originator or Third-Party Sender, and the methods used by the Originator(s) to obtain proper authorization for ACH transactions;

(d) the length of the ACH relationship between the ODFI and the Originator or Third-Party Sender;

(e) the date of the ODFI's most recent review of the exposure limit for the Originator or Third-Party Sender pursuant to Subsection 2.2.2 (ODFI Risk Management); and

(f) date and proof of completion of the ODFI's most recent ACH audit in accordance with the requirements of these Rules and Appendix Eight (Rule Compliance Audit Requirements).

SUBSECTION 2.17.2.2 ODFI Reduction of Return Rate
The ODFI must reduce the Originator's or Third-Party Sender's return rate for unauthorized Entries to a rate below one percent within sixty days after receipt of the National Association's written request for information and maintain that return rate below one percent for an additional one hundred eighty days.

▶ *The ODFI must reduce the Originator's or Third-Party Sender's return rate for unauthorized Entries to a rate below one percent within thirty days after receipt of the National Association's written request for information and maintain that return rate below one percent for an additional one hundred eighty days.*

APPENDIX TEN
Rules Enforcement

SUBPART 10.2.2 National Association Action on Receipt of Information Reported by ODFI
The National Association may initiate a rules enforcement proceeding according to Part 10.4 (National System of Fines) of this Appendix Ten for a Class 2 Rules Violation, as defined within Subpart 10.4.7.4 (Class 2 Rules Violation), if the ODFI (1) fails to provide the National Association with complete and accurate information, as required by Article Two, Section 2.17.2 (ODFI Return Rate Reporting), within ten Banking Days of receipt of NACHA's written request for information; (2) substantiates the claim that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent, and the ODFI fails to reduce that return rate to a rate below the return threshold for unauthorized Entries within 60 days after receipt of the National Association's written request, according to Article Two, Section 2.17.2 (ODFI Return Rate Reporting); or (3) substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent, and the ODFI successfully reduced the return rate to below the return threshold within the 60 day time period, but the ODFI failed to maintain the return rate below one percent for 180 additional days.

▶ *The National Association may initiate a rules enforcement proceeding according to Part 10.4 (National System of Fines) of this Appendix Ten for a Class 2 Rules Violation, as defined within Subpart 10.4.7.4 (Class 2 Rules Violation), if the ODFI (1) fails to provide the National Association with complete and accurate information, as required by Article Two, Section 2.17.2 (ODFI Return Rate Reporting), within ten Banking Days of receipt of NACHA's written request for information; (2) substantiates the claim that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent, and the ODFI fails to reduce that return rate to a rate below the return threshold for unauthorized Entries*

within 30 days after receipt of the National Association's written request, according to Article Two, Section 2.17.2 (ODFI Return Rate Reporting); or (3) substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded one percent, and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below one percent for 180 additional days.

SUBPART 10.4.3 Submission Requirements for
Rules Enforcement Proceedings Initiated by the National Association

Each rules enforcement proceeding initiated by the National Association must contain the following information and conform to the following requirements:

- a statement outlining the reason(s) for the initiation of a rules enforcement proceeding:

  (1) the ODFI failed, within the required timeframe, to provide the National Association with complete and accurate information as required by Article Two, Section 2.17.2 (ODFI Return Rate Reporting);

  (2) the information provided by the ODFI substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 60 days after receipt of the National Association's written request, according to Article Two, 2.17.2 (ODFI Return Rate Reporting);

▶ *(2) the information provided by the ODFI substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 30 days after receipt of the National Association's written request, according to Article Two, 2.17.2 (ODFI Return Rate Reporting);*

  (3) the information provided by the ODFI substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 60 day time period, but the ODFI failed to maintain the return rate below the return threshold for 180 additional days;

▶ *(3) the information provided by the ODFI substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below the return threshold for 180 additional days;*

  (4) the Participating DFI failed to comply with a direct obligation to the National Association, as defined by these rules;

- for a rules enforcement proceeding initiated in response to a violation of unauthorized Entries according to Part 10.2 (ODFI Reporting Requirements) of this Appendix Ten, a copy of the National Association's written request for information according to Subpart 10.2.1 (National Association Request for Information) of this Appendix Ten.

A rules enforcement proceeding initiated by the National Association must be submitted within 90 days of the occurrence of the rule violation(s) asserted.

SUBPART 10.4.7.4 Class 2 Rules Violation

A Class 2 Rules Violation is one in which:

(1) the Participating DFI has not responded to either the Notice of Possible ACH Rules Violation or the Notice of Possible Fine;

(2) the Participating DFI responds to either notice that it does not intend to correct the rules violation;

(3) the Participating DFI (i) fails to respond completely and accurately, within the proper time frame, to the National Association's request for information in accordance with the requirements of Article Two, Section 2.17.2 (ODFI Return Rate Reporting); (ii) substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 60 days of receipt of the National Association's written request; or (iii) substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 60 day time period, but the ODFI failed to maintain the return rate below the return threshold for 180 additional days. The Panel may consider the Originator's or Third-Party Sender's volume of debit Entries as an extenuating circumstance in determining whether a violation under this provision constitutes a Class 2 Rules Violation.

▶ *(3) the Participating DFI (i) fails to respond completely and accurately, within the proper time frame, to the National Association's request for information in accordance with the requirements of Article Two, Section 2.17.2 (ODFI Return Rate Reporting); (ii) substantiates the claim that the Originator or Third-Party Sender exceeded the return rate for unauthorized Entries and the ODFI has failed to reduce the Originator's or Third-Party Sender's return rate for Entries returned as unauthorized to a rate below the return threshold for unauthorized Entries within 30 days of receipt of the National Association's written request; or (iii) substantiates that the Originator's or Third-Party Sender's return rate for unauthorized Entries exceeded the return rate, and the ODFI successfully reduced the return rate to below the return threshold within the 30 day time period, but the ODFI failed to maintain the return rate below the return threshold for 180 additional days. The Panel may consider the Originator's or Third-Party Sender's volume of debit Entries as an extenuating circumstance in determining whether a violation under this provision constitutes a Class 2 Rules Violation.*

(4) the Participating DFI fails to register its Direct Access Debit Participant status or provide data reporting on a Direct Access Debit Participant, as required by Article Two, Section 2.17.1 (Direct Access Registration);

(5) the Participating DFI fails to provide the National Association with proof of completion of a rules compliance audit, as required by Appendix Eight (Rule Compliance Audit Requirements);

(6) the ACH Rules Enforcement Panel determines the time frame and resolution date asserted by a Participating DFI as necessary to resolve the problem causing the rules violation are excessive;

(7) the National Association believes that the violation causes excessive harm to one or more Participating DFIs or the ACH Network; or

(8) it is the fourth or subsequent recurrence of the same rules violation.

In situations involving a Class 2 Rules Violation, the ACH Rules Enforcement Panel may levy a fine against the respondent Participating DFI in an amount up to $100,000 per month until the problem is resolved. Where the violation relates to a specific Originator or Third-Party Service Provider at the DFI, a separate monthly fine may be assessed to the DFI with respect to each such Originator or Third-Party Service Provider.

Incomplete Transactions and the Return of Funding Debit Entries

(Approved April 2, 2012 – Effective March 15, 2013)

SUMMARY

The Incomplete Transactions and the Return of Funding Debit Entries rule will allow the return of a debit Entry to a Consumer Account within 60 days of the Settlement Date for an "Incomplete Transaction," which is defined as a transaction for which a Third Party Sender debits a consumer's account to collect funds, but does not complete the corresponding payment to the party to which payment is owed.

Background

In a variety of business arrangements, a Third-Party Sender processing on behalf of an Originator initiates a debit Entry to the Receiver for the purpose of funding a corresponding payment (e.g., an ACH credit) to a payee (the Receiver of the ACH credit). For example, Third-Party Senders may be involved in origination of utility payments, bill payments, tuition payments, etc. In situations where a Third-Party Sender debits a Receiver but does not complete the intended transaction by paying the Receiver's obligation to the payee, the underlying transaction is incomplete (an "Incomplete Transaction"). Incomplete Transactions create service issues for RDFIs, particularly when a Third-Party Sender fails to perform its obligations across a large number of customers. RDFIs become inundated by customers to whom they cannot offer a *Rules*-based solution. Currently, the *Rules* do not provide an adequate mechanism for the Receiver to be made whole for such a debit since the debit was, in fact, authorized by the Receiver.

This rule will permit a consumer Receiver to request, and require the RDFI to provide, re-credit for a debit Entry to the Receiver's account when it is part of an Incomplete Transaction. The rule will also specifically provide for the return of such a debit by the RDFI, putting the obligation for the debit back with the ODFI where it rightfully belongs. The request for re-credit and the RDFI's return of a debit related to an Incomplete Transaction will be subject to the same requirements and time frames currently defined within the *Rules* for the recredit and return of an unauthorized debit to the Receiver's account. Specifically, the rule will require an RDFI to recredit a consumer Receiver for a debit that is part of an Incomplete Transaction if the consumer has provided a Written Statement of Unauthorized Debit. The RDFI will be required to transmit a return in such time and manner as to be made available to the ODFI no later than the opening of business on the Banking Day following the sixtieth calendar day following the Settlement Date of the debit Entry. The description of Return Reason Code R10 (Customer Advises Not Authorized, Improper, or Ineligible) will be expanded for this purpose.

KEY COMPONENTS OF RULE AMENDMENT

This new rule will allow the return of a debit Entry to a Consumer Account within 60 days of the Settlement Date for an "Incomplete Transaction." An "Incomplete Transaction" is defined as a transaction for which a Third Party Sender debits a consumer's account to collect funds, but does not complete the corresponding payment to the party to which payment is owed.

IMPACT TO PARTICIPANTS

RDFIs: This amendment will explicitly allow RDFIs to return debits related to Incomplete Transactions as they would any other unauthorized debit to a consumer's account. Any customer service or processing impact to the RDFI should be minimal. RDFIs may, however, bear some programming, customer service, and training costs associated with the expanded uses of the R10 Return Reason Code.

Receivers: Consumer Receivers will benefit from the ability to be re-credited for a debit when a corresponding payment is not made by a Third-Party Sender on the Receiver's behalf.

ODFIs: ODFIs may need to perform additional due diligence with respect to Third-Party Sender customers to ensure that the Third-Party Senders have the capabilities to complete transactions. ODFIs may incur costs associated with training and due diligence costs associated with the expanded use of Return Reason Code R10.

Originators: Originators are expected to benefit from a better resolution of the interruption of their customers' payments. When Originators' customers are re-credited by their RDFIs, these customers will be in a position to make alternative payment arrangements with Originators.

Third-Party Senders: Third-Party Senders may be subject to tighter obligations imposed by their ODFIs as a result of the Rule. Third-Party Senders may also incur programming and training costs associated with the expanded use of Return Reason Code R10.

TECHNICAL SUMMARY

Below is a summary of the impact of this rule change on the *NACHA Operating Rules*. Sections of the *Rules* that are affected by this amendment are also included below and reflect rule language as it will read upon implementation.

- Article Three, Section 3.11 (RDFI Obligation to Recredit Receiver) – Expands this section to require an RDFI to recredit the accountholder for a debit Entry to a Receiver's account that is part of an Incomplete Transaction.

- Article Three, Subsection 3.11.1 (RDFI General Obligation to Recredit Consumer Accounts) - Clarifies that the RDFI's recredit obligation regarding a debit Entry to a Consumer Account that is part of an Incomplete Transaction does not apply when a partial or erroneous payment was made to the intended third-party payee;

- Article Three, Subsection 3.12.3 (Incomplete Transaction) – adds a new subsection defining the concept of an Incomplete Transaction as it relates to the use of the Written Statement of Unauthorized Debit.

- Article Three, Subsection 3.12.4 (RDFI Must Accept Written Statement of Unauthorized Debit) – Requires an RDFI to accept a Written Statement of Unauthorized Debit from a Receiver with respect to any Incomplete Transaction to a Consumer Account.

- Article Eight, Subsection 8.46 ("Incomplete Transaction") – Defines the term "Incomplete Transaction" as "a payment to an intended third-party payee that was not made or completed by the Originator, Third-Party Sender or ODFI of a corresponding debit Entry authorized by the Receiver for the purpose of funding the payment to the third-party payee. A partial or erroneous payment to the intended third-party payee is not an Incomplete Transaction."

- Article Eight, Subsection 8.98 ("Written Statement of Unauthorized Debit") – Modifies the definition of this term to include a written notice by a Receiver to an RDFI requesting recredit for a debit that was part of an Incomplete Transaction.

- Table of Return Reason Codes – Revises the descriptions of Return Reason Code R10 to accommodate the return of a debit Entry that is a part of an Incomplete Transaction.

Implementation Date: March 15, 2013

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As approved April 2, 2012, effective March 15, 2013,, the Rules are modified as follows for the rule change related to Incomplete Transactions and the Return of Funding Debit Entries:

ARTICLE THREE
Rights and Responsibilities of RDFIs and Their Receivers

SECTION 3.11 RDFI Obligation to Recredit Receiver

An RDFI must recredit the accountholder for a debit Entry that was, in whole or in part, not properly authorized under these Rules, as required by these Rules, applicable Legal Requirements, or agreement between the RDFI and the account holder. This recredit requirement does not apply if the accountholder is a Receiver that has waived any right to recredit in accordance with the requirements of Subsection 3.11.4 (Receiver's Waiver of RDFI's Recredit Obligation).

▶ *An RDFI must recredit the accountholder to the extent provided in this Section 3.11 for (a) a debit Entry that was, in whole or in part, not properly authorized under these Rules, as required by these Rules, applicable Legal Requirements, or agreement between the RDFI and the account holder; and (b) a debit Entry to a Receiver's account that is part of an Incomplete Transaction. This recredit requirement does not apply if the accountholder is a Receiver that has waived any right to recredit in accordance with the requirements of Subsection 3.11.4 (Receiver's Waiver of RDFI's Recredit Obligation).*

SUBSECTION 3.11.1 RDFI General Obligation to Recredit Consumer Accounts

An RDFI must promptly recredit the amount of a debit Entry to a Consumer Account of a Receiver, regardless of the SEC Code of the debit Entry, if it receives notification from the Receiver in accordance with Section 3.12 (Written Statement of Unauthorized Debit), and such notification is received within fifteen calendar days from the date the RDFI sends or makes available to the Receiver information related to the debit Entry in accordance with Subsection 3.1.5 (RDFI Obligation to Provide Information About Entries).

▶ *The RDFI's obligation to recredit the Receiver's account for a debit Entry that is part of an Incomplete Transaction does not apply when a partial or erroneous payment was made to the intended third-party payee on the Receiver's behalf.*

▶ ### SUBSECTION 3.12.3 Incomplete Transaction [New Subsection]

For purposes of this Section 3.12, a transaction is an Incomplete Transaction if it involves a debit Entry authorized by a Receiver for the purpose of funding a corresponding payment to a third-party payee, but the Originator, Third-Party Sender or ODFI of the debit Entry failed to make or complete the corresponding payment to the intended third-party payee. An Incomplete Transaction does not include a partial or erroneous payment made to the intended third-party payee.

▶ ### SUBSECTION 3.12.4   RDFI Must Accept Written Statement of Unauthorized Debit

An RDFI must accept a Written Statement of Unauthorized Debit from a Receiver with respect to any:

(a)   unauthorized or improper debit Entry to a Consumer Account;

(b) any unauthorized or improper ARC, BOC, or POP Entry to a non-Consumer Account; and

(c) any unauthorized IAT Entry.

▶ *(a) unauthorized or improper debit Entry to a Consumer Account;*

(b) unauthorized or improper ARC, BOC, or POP Entry to a non-Consumer Account;

(c) unauthorized IAT Entry; and

(d) Incomplete Transaction to a Consumer Account.

The Written Statement of Unauthorized Debit must be signed or similarly authenticated by the Receiver, submitted within the time frames provided by these Rules, and otherwise conform to the requirements of this Section 3.12.

The Written Statement of Unauthorized Debit must include the following minimum information for each Entry for which recredit is requested by the Receiver:

(e) Receiver's printed name and signature;

(f) Receiver's account number;

(g) Identity of the party (i.e., the payee) debiting the account, as provided to the Receiver;

▶ *(g) Identity of the party (i.e., the payee) debiting the account, as provided to the Receiver, and, if different, the name of the intended third-party payee;*

(h) Date the Entry was posted to the account;

(i) Dollar amount of Entry;

(j) Reason for return;

(k) Signature date;

(l) Receiver assertion that the Written Statement of Unauthorized Debit is true and correct; and

(m) Receiver assertion that the Receiver is an authorized signer or has corporate authority to act on the account.

The Written Statement of Unauthorized Debit must be dated on or after the Settlement Date of the Entry(ies) for which recredit is requested.

More than one unauthorized debit Entry from a single Originator may be documented on a Written Statement of Unauthorized Debit, provided that all of the information detailed above is provided for each debit Entry for which the Receiver is seeking recredit.

ARTICLE EIGHT
Definitions of Terms Used in These Rules

▶ **SECTION 8.46 "Incomplete Transaction" [New Section]**

a payment to an intended third-party payee that was not made or completed by the Originator, Third-Party Sender or ODFI of a corresponding debit Entry authorized by a Receiver for the purpose of funding the payment to the third-party payee. A partial or erroneous payment to the intended third-party payee is not an Incomplete Transaction.

SECTION *8.99* "Written Statement of Unauthorized Debit"

a written notice submitted by a Receiver to an RDFI requesting recredit to the Receiver's account with the RDFI for debit to the Receiver's account that was not authorized by the Receiver or was improper, as provided in Section 3.12 (Written Statement of Unauthorized Debit).

▶ *a written notice submitted to an RDFI by a Receiver requesting recredit to the Receiver's account with the RDFI for a debit to the Receiver's account that was not authorized by the Receiver, was improper, or was part of an Incomplete Transaction, as provided in Section 3.12 (Written Statement of Unauthorized Debit).*

PART 4.2 Table of Return Reason Codes (continued)

CODE	TITLE	DESCRIPTION	INITIATED BY	RETURN TYPE	ACCOUNT TYPE	TIME FRAME	WRITTEN STATEMENT REQUIRED	CROSS REFERENCE	NOTES
R07	**Authorization Revoked by Customer**	The RDFI's customer (the Receiver) revoked the authorization previously provided to the Originator for this debit Entry.	RDFI	Extended Return	Consumer	** 60 Calendar Days	Yes	Article Three, Section 3.13 - RDFI's Right to Transmit Extended Return Entries. Article Three, Subsection 3.12.1 - Unauthorized Debit Entry	This Return Reason Code may not be used for ARC, BOC, POP, or RCK Entries..
R08	**Payment Stopped**	The Receiver has placed a stop payment order on this debit Entry.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.7 - RDFI Obligation to Stop Payment.	A stop payment order may be placed on one or more debit Entries.
R09	**Uncollected Funds**	A sufficient ledger balance exists to satisfy the dollar value of the transaction, but the available balance is below the dollar value of the debit Entry.	RDFI	Return	Consumer or Non-Consumer	* 2 Banking Days	No	Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries.	
R10	**Customer Advises Not Authorized, Improper, or Ineligible** *Customer Advises Not Authorized, Improper, Ineligible, or part of an Incomplete Transaction*	The RDFI has been notified by the Receiver that the Entry is unauthorized, improper, or ineligible. *The RDFI has been notified by the Receiver that the Entry is unauthorized, improper, ineligible, or part of an Incomplete Transaction.*	RDFI	Extended Return	Consumer; for ARC, BOC, IAT, or POP, Entries may also be a Non-Consumer. See note for additional exceptions.	** 60 Calendar Days	Yes	Article Three, Subsection 3.12.1 - Unauthorized Debit Entry. Article Three, Subsection 3.12.2 - Improper ARC, BOC, POP, and RCK Debit Entries. *Article Three, Subsection 3.12.3- Incomplete Transaction.* Article Three, Subsection 3.1.3 - RDFI May Rely on Standard Entry Class Codes. Article Three, Subsection 3.4.1.2 Rule Exception for CCD and CTX Entries to Consumer Accounts. Article Three, Section 3.13 - RDFI Right to Transmit Extended Return Entries. *Article Eight, Section 8.46 - Incomplete Transaction.*	May be used for any Entry except CCD or CTX Entries For CCD or CTX Entries to Consumer Accounts, see R05. For CCD or CTX to Non-Consumer Accounts, see R29. May also be used to return an unauthorized debit Entry to a non-consumer account if the debit Entry contains a consumer SEC Code.

* Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the second Banking Day following the Settlement Date of the original Entry.

** Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the Banking Day following the sixtieth calendar day following the Settlement Date of the original Entry.