

# New ACH Meaningful Modernization Rules

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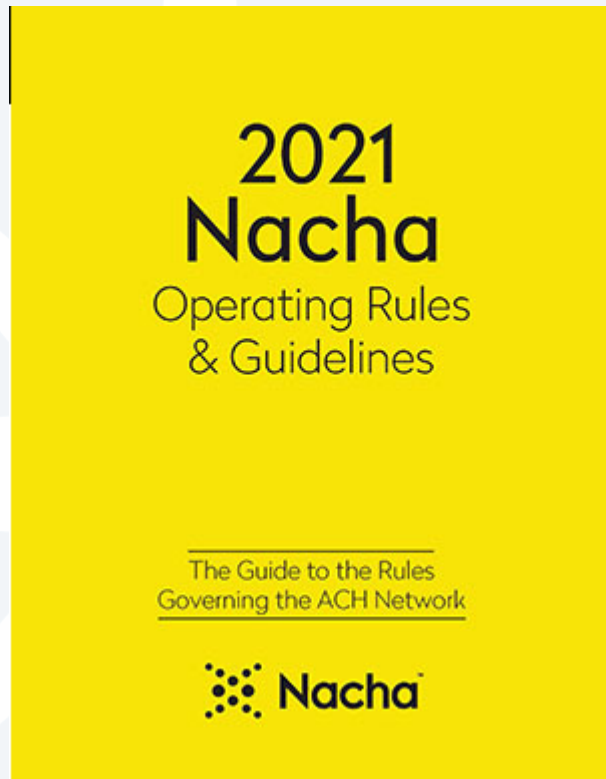
“New ACH Meaningful Modernization Rules” discussed in this presentation is the current version with effective date of August 11, 2021.

The comments today are my own and not necessarily those of MY CU Services or the MY CU Services membership.

# Reminder-ACH Contact Registry

- July 1, 2020-ACH Contact Registry opened for registration
  - All institutions participating in the ACH Network are required to register
- October 30, 2020-Deadline to register
- Nacha granted a grace period, between October 30, 2020 and July 31, 2021.
- The enforcement period begins on August 1, 2021.
  - Failure to register will be considered a Class 2 Rules violation and could result in a fine.

# Nacha



- Books can be ordered through Nacha.
  - <https://www.nacha.org/>
  - Paper and electronic (online) versions available
- Upcoming ACH rules
  - <https://www.nacha.org/rules/upcoming>

# Agenda

2021 Q1 and Q2 Review

Meaningful Modernization

Standing Authorization

Oral Authorizations

Other Authorization Proposals

Alternative to Proof of Authorization

Written Statement of Unauthorized Debit  
via Electronic or Oral Methods

Questions?

# 2021 Q1 and Q2 Review

# So far in 2021...

- January 1-Enforcement Rule
  - The purpose of this rule is to improve enforcement capabilities for egregious violations of the ACH rules.
- March 19-Expansion of Same Day ACH
  - The purpose of this rule is to expand access to Same Day ACH by allowing Same Day ACH transactions to be submitted to the ACH Operator for an additional two hours every business day.
- March 19-Supplementing Fraud Detection Standards for WEB Debits
  - The existing requirement, of ACH Originators of WEB debits, to use a “commercially reasonable fraudulent transaction detection system” to screen WEB debits for fraud will be supplemented to make it explicit that “account validation” is part of a “commercially reasonable fraudulent transaction detection system.”

# So far in 2021...

- April 1-Unauthorized Entry Fee applies to R11 returns
- June 30-Supplementing Data Security Requirements
  - The purpose of this rule is to supplement the existing account information security requirement for large-volume Originators and Third-Party Service Providers.
- June 30-Limitation on Warranty Claims
  - The purpose of this rule is to limit the length of time in which an RDFI will be permitted to make a claim against the ODFI's authorization warranty.
- June 30-Reversal Rule
  - The purpose of this rule is to deter and prevent the improper use of reversals and the harm it can cause.



# Meaningful Modernization

September 17, 2021

# Meaningful Modernization

- Meaningful Modernization is a group of 5 new rules that cover:
  - Standing Authorization
  - Oral Authorizations
  - Other Authorization Proposals
  - Alternative to Proof of Authorization
  - Written Statement of Unauthorized Debit (WSUD) via Electronic or Oral Methods
- The purpose of this new set of rules is to improve and simplify the ACH user experience.
  - Allows for and encourages the adoption of new technologies and channels for the authorization and initiation of ACH payments
  - Reduces barriers to use of ACH
  - Provides clarity and increasing consistency around certain ACH authorization processes
  - Reduces certain administrative burdens related to ACH authorizations

# Standing Authorization

- Currently, ACH authorizations only address single entries or recurring entries that occur at regular intervals.
- A Standing authorization will be defined as an advance authorization by a consumer for future debits that will occur at various intervals.
  - Standing authorization may be obtained in writing or orally.
  - Payments initiated based on a standing authorization will be referred to as Subsequent entries.
  - Standing authorization must identify the action the consumer must take to initiate subsequent entries.
    - Subsequent entries may be initiated in any manner identified in the Standing Authorization.
  - Originator may initiate subsequent entries using additional SEC codes (WEB or TEL) specific to the action taken by the consumer to initiate the entry.
    - The Originator would not need to meet the authorization requirements of TEL or WEB but would need to continue to meet the risk management and security requirements associated with those codes. (i.e. account validation for first time WEB debit entries)

# Standing Authorization

- ODFIs and Originators may choose to implement the Standing Authorization and Subsequent entries but are not required to.
- Proof of Authorization for entries initiated under a Standing Authorization must include a copy of the Standing Authorization and evidence of the action taken to initiate each Subsequent Entry.
- Originator must retain a copy of each Standing Authorization for two (2) years following termination/revocation of the Standing Authorization and proof that each entry was initiated by the Receiver for two (2) years following the settlement date of the entry.

# Oral Authorizations

- This new rule defines and allows “Oral Authorization” as a valid authorization method for consumer debits when the oral authorization is not received via a telephone call.
  - This new rule will expand the use of oral authorizations.
- Currently, the SEC code TEL is the only payment type that has requirements and addresses risks specific to an oral authorization, but TEL is specific to a telephone call.
  - Many newer channels make use of verbal interactions and voice-related technologies.
    - I.E. Alexa, Siri, Google, Zoom, Skype, Facetime
  - The rule clarifies the use of SEC codes and risk management requirements related to oral authorizations.

# Oral Authorizations

- ODFIs and Originators may choose to implement the expanded applicability of Oral Authorizations but are not required to.
- ODFIs and Originators may need to store larger numbers of oral authorizations.
- Consumer debits orally authorized over the internet (using a virtual assistant, Skype, Facetime or similar technology) should be identified as WEB debit entries.
  - Must complete account validation for all first time WEB debit entries.
- Proof of Authorization for an Oral Authorization must include the original or duplicate audio recording or a copy of the written notice.
  - For single entries, proof must be retained for two (2) years from the date of the authorization.
  - For recurring entries and Standing Authorizations, proof must be retained for two (2) years from the termination or revocation of the authorization.

# Other Authorization Proposals

- The purpose of this rule is to provide clarity, flexibility and consistency to the general authorization rules.
  - Brings uniformity to authorizations
  - Applies to new authorizations, not existing authorizations
- Clarity
  - Re-organizes the general authorization rules to incorporate Standing and Oral Authorizations
  - Defines “recurring entry” to complement the existing definition of single entry and the newly defined subsequent entry
- Flexibility
  - Explicitly states that authorization for a non-consumer ACH debit can be made by any method allowed by law/regulation
- Consistency
  - Applies the standards of “readily identifiable” and “clear and readily understandable” to all authorizations
  - Defines the minimum required information that an authorization should include

# Other Authorization Proposals

- The minimum information that a consumer debit authorization should contain includes:
  - Language regarding whether the authorization is for a Single Entry, Multiple Entries or Recurring Entries
  - The amount or the method of determining the amount
  - The timing, number and/or frequency of the entries, including the start date
  - The Receiver's name or identity
  - The account to be debited
  - The date of the Receiver's authorization
  - Instructions for the revocation of the authorization
- Minimum required data applies to new or updated consumer debit authorizations only.



# Alternative to Proof of Authorization

- This new rule allows an ODFI to agree to accept the return of an entry as an alternative to providing proof of authorization.
  - The ODFI will have ten (10) banking days to either provide the proof of authorization or agree to accept a return.
  - If the ODFI agrees to accept a return, the RDFI will have ten (10) banking days to complete the return.
  - These entries should be returned using the R06 return reason code.
- If the ODFI agrees to accept the return but the RDFI still requests proof of authorization, the ODFI still must comply and provide the proof within ten (10) banking days of the RDFI's subsequent request.

# Written Statement of Unauthorized Debit (WSUD) via Electronic or Oral Methods

- This new rule clarifies and makes explicit that an RDFI may obtain a consumer's WSUD electronically or orally.
  - A consumer is permitted to sign a WSUD with an Electronic Signature.
- RDFIs may need to incorporate new procedures and technologies to accommodate this new rule.
- RDFIs must be able to provide or accurately reproduce the WSUD, upon request.

# Questions?



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