

# ACH Update



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## Today's Presenters



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## Agenda

- ACH rule changes
  - Same-day ACH: The next phase
  - Third-party sender registration requirements
- Lessons learned from prior years' changes
  - Unauthorized entry fee
  - Commercially reasonable encryption standard
  - Return rate threshold and enforcement process
  - Reinitiation requirements
- Examiner scrutiny and trends in payments

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Rule Changes: Same Day ACH and TPS Registration

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## Rule Changes

- If you need a copy of rule supplements or information on the rule changes, they can be obtained at [www.nacha.org/rules](http://www.nacha.org/rules) and [www.nacha.org/rules/updates](http://www.nacha.org/rules/updates).
- Some also make it into the “revisions” section of the Rules book.

## Same Day ACH (eff. 9/23/16)

- Available for years prior to SDA, but only a very small % of FIs opted in to the optional same day processing, so it hasn't been working well (0.25 cents per entry to RDFI fee = didn't support cost).
- Large FIs were wanting same day processing mandated so ACH can be “immediate.”
  - ✓ Digital payments, like iPay, are also pushing ACH to compete. Federal Reserve also urged faster payments.
- Request for comment ended Feb. 2015, but had about 200 comments, the most ever! 92% in favor!

## Same Day ACH (eff. 9/23/16)

- Expert research says many will benefit from same day availability.
- The following major groups to benefit are:
  - ✓ Same-day payrolls
  - ✓ Business-to-business payments
  - ✓ Expedited bill payments
  - ✓ Account-to-account transfers



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## Same Day ACH (eff. 9/23/16)

- Same day origination is optional for ODFIs.
- RDFI's same day settlement is mandatory.
  - NACHA estimates an interbank fee paid from ODFIs to RDFIs of 5.2 cents per same day entry would on average recover RDFIs' costs to build and operate same day ACH processing.



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## Same Day ACH (eff. 9/23/16)

- SDA is available for all debit and credit entries except IAT and >\$25K.
  - >\$25K entry in SDA file will get stripped and done separately as next day file. May cause balancing issue!
- Another exception is sending the U.S. government credits, such as paying estimates or tax withholdings.
  - Train originators so they don't submit tax payments too late!
- 99% of current activity is eligible.

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## Same Day ACH (eff. 9/23/16)

- Fee of 5.2 cents (down from proposed 8.2 cents)
- Based on study and analysis from economist
- Recovery = projected average RDFI investment (for the initial period) + operational costs + reasonable rate of return
- 5-year volume review – fee may decrease
- 8-year volume review – fee may decrease
- 10-year economic review, recurring every 10 years

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## Same Day ACH (eff. 9/23/16)

- Implemented in phases
  - Same day credits (and non-monetary entries) 9/23/16
  - Same day debits added 9/15/17
  - 2 settlements per day (1 p.m. and 5 p.m.) by 3/16/18
- Adds a morning window at 10:30 a.m. ET, for settlement at 1:00 p.m. local time
- Adds afternoon window at 2:45 p.m. ET, for settlement at 5:00 p.m. local time



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## Same Day ACH (eff. 9/23/16)

- In the morning, west coast cut off for getting origination files into the operator may be before the ODFI is even open (for the 10:30 a.m. window).
- For the last SDA window (5:00 local time settlement), the west coast RDFIs will have plenty of time to get the files posted once received from the operator prior to 5 p.m. local time.



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## Same Day ACH (eff. 9/23/16)

- FRBservices.org – processing times

FedACH® Processing Schedule (effective Sept. 23, 2016)				
Transmission Window	Target Distribution <small>(Times reflect targets for outgoing distribution and the Reserve Banks bear no liability should a later distribution time occur)</small>		Settlement Schedule <b>settlement in fed account</b>	
<b>FedACH Forward – Future Dated Items</b>				
10:30 a.m. ET (1030 ET)	930CT	12 noon ET (1200 ET)	11CT	For all: 8:30 a.m. ET (0830 ET) - Future Business Day
2:45 p.m. ET (1445 ET)	145CT	4 p.m. ET (1600 ET)	3CT	
8 p.m. ET (2000 ET)	7CT	10 p.m. ET (2200 ET)	9CT	
2:15 a.m. ET (0215 ET)	115CT	6 a.m. ET (0600 ET)	5CT	
<b>FedACH Forward – Same Day Items</b>				
10:30 a.m. ET (1030 ET)	930CT	12 noon ET (1200 ET)	11CT	1 p.m. ET (1300 ET) - Current Business Day
2:45 p.m. ET (1445 ET)	145CT	4 p.m. ET (1600 ET)	3CT	5 p.m. ET (1700 ET) - Current Business Day
<b>FedACH Returns</b>				
10:30 a.m. ET (1030 ET)	930CT	12 noon ET (1200 ET)	11CT	1 p.m. ET (1300 ET) - Current Business Day
2:45 p.m. ET (1445 ET)	145CT	4 p.m. ET (1600 ET)	3CT	5 p.m. ET (1700 ET) - Current Business Day
4 p.m. ET (1600 ET) *	3CT	5 p.m. ET (1700 ET)	4CT	5:30 p.m. ET (1730 ET) - Current Business Day
8 p.m. ET (2000 ET)	7CT	10 p.m. ET (2200 ET)	9CT	8:30 a.m. ET (0830 ET) - Next Business Day
2:15 a.m. ET (0215 ET)	115CT	6 a.m. ET (0600 ET)	5CT	8:30 a.m. ET (0830 ET) - Next Business Day

likely have posted and available by 9 am on sett date because may include PPD

Will need to have posted by 1 and 5 CT beginning March 2018 SDA phase 3

For return entries that are not future dated

\* Additional return window; other 4 windows are the same as origination windows

## Same Day ACH (eff. 9/23/16)

- The more east you go, the less time to post the file. The more west you go, the more time. You can post early.

Example: 4:00 p.m. ET expected distribution for a 5:00 p.m. local time posting.



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## Same Day ACH (eff. 9/23/16)

- Nacha.org, search “same day ACH resource center”
  - Memos and FAQs; RDFI, ODFI, and originator and third-party checklists



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## Same Day ACH (eff. 9/23/16)

- RDFIs need to consider:
  - File delivery schedules with operator/correspondent.
  - Procedures and resources for complying with new settlement windows (More staff or just more steps? Longer hours?).
  - Processing – in house or correspondent.
  - Stop pay window may be smaller - What is final payment window? R08 timing didn't change.
  - For SD debits, you may want to inform account holders so that they are aware that if they authorize a payment, their account may have the debit processed within hours (they are accustomed to at least a 1-day lag).



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## Same Day ACH (eff. 9/23/16)

- RDFIs need to consider:
  - Fees -- correspondent and daylight overdrafts:
    - Will the cost be covered by the per entry fee for same day entries?
    - If not, will the fee income be adjusted to offset? Or some other profit plan be used? Competition?

## Same Day ACH (eff. 9/23/16)

- RDFIs need to consider:
  - Will processing change for business payees (recipients of bill payment credits)?
    - A business receiver needs to credit the payer's account as of settlement date (they are allowed a reasonable amount of time to process the payment and backdate it to settlement date on the payer's account).

## Same Day ACH (eff. 9/23/16)

- RDFIs need to consider:
  - Will you use the same day processing windows for sending returns and NOCs?
    - Would settle at the next available window
    - No SDA fee charged
    - NOTE: Fee is charged to send prenotes SD
  - Consider other systems/applications that may be impacted.

## Same Day ACH (eff. 9/23/16)

- Optional SDA return window considerations:
  - ODFIs receiving this last daily return file will see the returns that are settling against their Fed account at the end of the day.
  - This allows the ODFI to settle these returns with originators that day to avoid float risk (Fed account overdraft fees).
  - This becomes a concern when SDA debits begin in Sept. 2017.
  - This window has existed for checks, but it has had low usage. With ACH joining the window, usage will likely increase.

## Same Day ACH (eff. 9/23/16)

- Credit availability effective 9/23/16 states:

“For a credit Same Day Entry, an RDFI must make the amount of the credit Entry available in the Receiver’s account no later than the completion of the RDFI’s processing for that Settlement Date, subject to its right to return the Entry under these Rules. An RDFI is not required to make such funds available for withdrawal on the Settlement Date.”

## Same Day ACH (eff. 3/16/18)

- This paragraph changes effective 3/16/18 to state:

“For a credit Same Day Entry, an RDFI must make the amount of the credit Entry available to the Receiver for withdrawal no later than 5:00 p.m. in the RDFI’s local time on the settlement date of the entry, subject to its right to return the Entry under these Rules.”

## Same Day ACH (eff. 9/23/16)

- NACHA's resource center stated this explanation addressed to employers: "...initially, some institutions may take longer than end of business day to credit some employees' accounts for same-day payroll Direct Deposits. By March 2018, though, all financial institutions will credit same-day payroll deposits to employees' accounts by 5:00 p.m. local time."
- NACHA's website stated: "Beginning in Phase 1, RDFIs should provide end of day funds availability for all same day credit entries received. Phase 3 will require RDFIs to provide funds availability at 5:00 p.m. local time..."
  - End of day means end of that day's processing even if it ends on the next calendar/business day, but...



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## Same Day ACH (eff. 9/23/16)

- Is it just easier to process the funds availability in Phase 1 before 5:00 p.m. on settlement?
  - How will your NSF report work?
  - How will automated NSF fees work?
  - Do you offer bill pay that would delay the ability to pay bills?
  - How will your reject report and return processing work?
    - The return time frame hasn't changed, but you have 1 day from settlement date to return



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## Same Day ACH (eff. 9/23/16)

- If the RDFI suspects the credit is unauthorized, it is exempt from the ACH availability requirements and must promptly notify the ODFI.
  - This has been the rule prior to SDA.

## Same Day ACH (eff. 9/23/16)

- Effective entry date on each file specifies the intended settlement date (same day entries).
  - Credits can be same day or 1 or 2 business days out.
  - Debits must be 1 business day out (or same day beginning 9/15/17).
  - Stale (past) or improperly formatted dates will be settled at the next available opportunity.
    - Watch out! You may originate same day entries without realizing it! What did your originator enter?
    - Also watch out for reversing entries – can't let reversal settle first!

## Same Day ACH (eff. 9/23/16)

- ODFI can require its originators to use the company descriptive date field to identify same day entries.
  - SDHHMM format to indicate desired settlement time.
    - SD1300 for 1:00 or SD1700 for 5:00
  - ODFI could also use company discretionary data field.
- Operator will not monitor these fields (nor will the RDFI). It is the ODFI's job to hold entries for processing until the desired settlement window.
  - Does/will your system do this automatically?

## Same Day ACH (eff. 9/23/16)

- ODFIs not allowing same day origination still need to take action! Have you?
  - Training to originators regarding the importance of effective date structure.
  - Training to originators/employees on possible changes to system.
  - Changes to agreement to allow the passing along of fees should SDA entries get originated.
  - How are SDA entries monitored and rejected/ processed?

## Same Day ACH (eff. 9/23/16)

- ODFIs allowing same day processing need to consider:
  - Submission and delivery times between originators, processor/correspondent, operator
  - Agreements and processing with originators/TPSs:
    - Eligible entries, phase 1 limitations
    - Proper date formats, use of same day indicator
    - System eligibility/changes – Does your system have parameters to restrict effective date selection?

## Same Day ACH (eff. 9/23/16)

- ODFIs allowing same day processing need to consider:
  - Fees: Work with operator – Will/do you charge originators?
  - How to hold entries received but not desired to be settled yet?
  - Reversing entries – Reversal can't settle first!

## Same Day ACH (eff. 9/23/16)

- For ODFIs, the exposure risk decreases.
- This may mean that loan officers/credit approvers may need to have customer info available 24/7 even when out of the office to approve potential exposure (that is continually changing throughout the day...or at least in the 3 settlement windows).
- If an ODFI requires balanced files submitted from originators, the debit side will not settle same day until phase 2, and this can create issues for the ODFI.



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## Same Day ACH (eff. 9/23/16)

- SDA has higher potential for fraud losses, and ODFIs may want to require different/more security around submission and processing of SDA files.
- Because RDFIs can send returns as SDA, it will help mitigate losses and possibly alert ODFIs to fraud more quickly.
  - However, RDFIs are not required to use SDA for returns, though it is available.



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## Same Day ACH (eff. 9/23/16)

- From Faster Payments 2017 conference:
  - A fraudster could have the money out of the country within hours
  - Fraud will be harder to stop with SDA
- With Debits coming in Sept. 2017:
  - RDFIs can just post debits early (before 5 p.m.), so no extra processing is required to meet new rules
  - If RDFI does not process SD debits until the next day, they would still need to send returns that day and can't wait until the following morning

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## TPS Registration (eff. 9/29/17)

- Each ODFI must register, even to say they have no TPSs!
- Will be a new ACH audit requirement
- Will be implemented with Direct Access Registration so ODFIs can register either or both at one time



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## TPS Registration (eff. 9/29/17)

- Intended to promote consistent customer due diligence among ODFIs and assist NACHA with its efforts to maintain network quality
  - Provide TPS baseline data
  - Identify when TPS uses multiple ODFIs
  - Identify when TPS is terminated at one ODFI
  - Aid in risk investigations as needed



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## TPS Registration (eff. 9/29/17)

- Implementation will last through 3/1/18
  - Initial registration will be 9/29/17 – 3/1/18
- ODFI must register TPSs within 30 days of first TPS initiation
- If ODFI determines that there is a TPS that isn't registered, ODFI has 10 days to register that TPS
- ODFI must update registrations within 45 days of any change



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## TPS Registration (eff. 9/29/17)

- For ODFIs with TPSs, the Rule will require the ODFI to provide a limited set of initial, basic registration information for each TPS that the ODFI should already have in its records:
  - The ODFI's name and contact information
  - The TPS's name and principal business location (city and state)
  - The routing number used in TPS's ACH transactions
  - The Company Identification(s) of the TPS



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## TPS Registration (eff. 9/29/17)

- Registration applies to the ODFI's TPSs' TPSs
  - I.e., nested TPSs
  - Requires TPSs to provide ODFIs with info for their nested TPSs
  - The top TPS must disclose info on its TPSs to the ODFI prior to initiation and within 2 banking days of an ODFI request for info



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## TPS Registration (eff. 9/29/17)

- After initial registration, NACHA may send written request for additional info, which ODFI has 10 banking days to provide:
  - Any DBA names, taxpayer ID #s, and street and website address(es) of the TPS
  - The name, title, phone #, and email address for the TPS contact
  - Names and titles of the TPS's principals
  - The approximate number of Originators for which the TPS transmits entries
  - A statement as to whether the TPS transmits debits credits, or both



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## TPS Registration (eff. 9/29/17)

- This supplemental information will be requested when NACHA deems there is an elevated risk of:
  - Financial loss to one or more DFIs, originators, or receivers
  - Violation of the rules or other applicable law
  - Excessive levels of returns



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## TPS Registration (eff. 9/29/17)

- Issues with the registration information under GLBA and Reg P?
  - These relate to nonpublic, personal info related to a consumer account.
  - TPSs are not consumers, so NACHA believes it is OK.

## TPS Registration (eff. 9/29/17)

- NACHA has a TPS identification tool to assist ODFIs and companies

<https://www.nacha.org/third-party-sender-identification-tool>

This tool is an easy-to-understand determination of a TPS (vs. a TPSP)



## Unauthorized Entry Fee

- Is the \$4.50 helpful?
- Balancing issues?
- Is it encouraging FIs to obtain another WSUD when a recurring stop payment order is in place to stop all future entries because those entries are improper or revoked authorization but keep recurring.
  - A WSUD-related return would be more accurate than Stop Payment R08, and send the right message to the ODFI.

## Commercially Reasonable Encryption Standard

- Most providers were ready.
- What about originators?
  - As an ODFI, did you communicate the new requirements to them?
  - ODFIs have the obligation to keep originators informed of the rules that apply to them
  - The encryption standard would impact communications that the originators have with their customers, employees, etc. (the receivers)



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## Return Rate Threshold and Enforcement Process

- Unauthorized return rate 0.5%
  - 16 times higher than average
- Admin and Account error (R02, R03, & R04) return rate 3%
  - 9 times higher than average
- Overall return rate 15%
  - 10.5 times higher than average
- Are you monitoring internally?
- Have you had any inquiries from NACHA?



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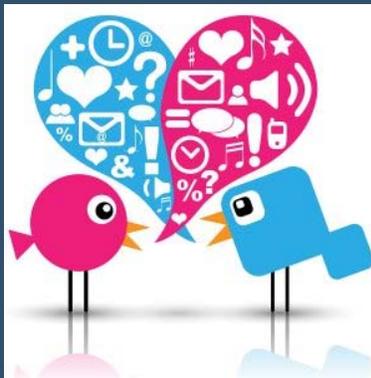
## Reinitiation Requirements

- Explicit prohibition of reinitiating entries outside of those circumstances permitted by the Rules
- Cannot edit entry fields from the original entry except for:
  - Correcting an error
  - Changing company entry description to “RETRY PYMT” which is required
- Result: Easier to assist with errors, inquiry, returns, customer service

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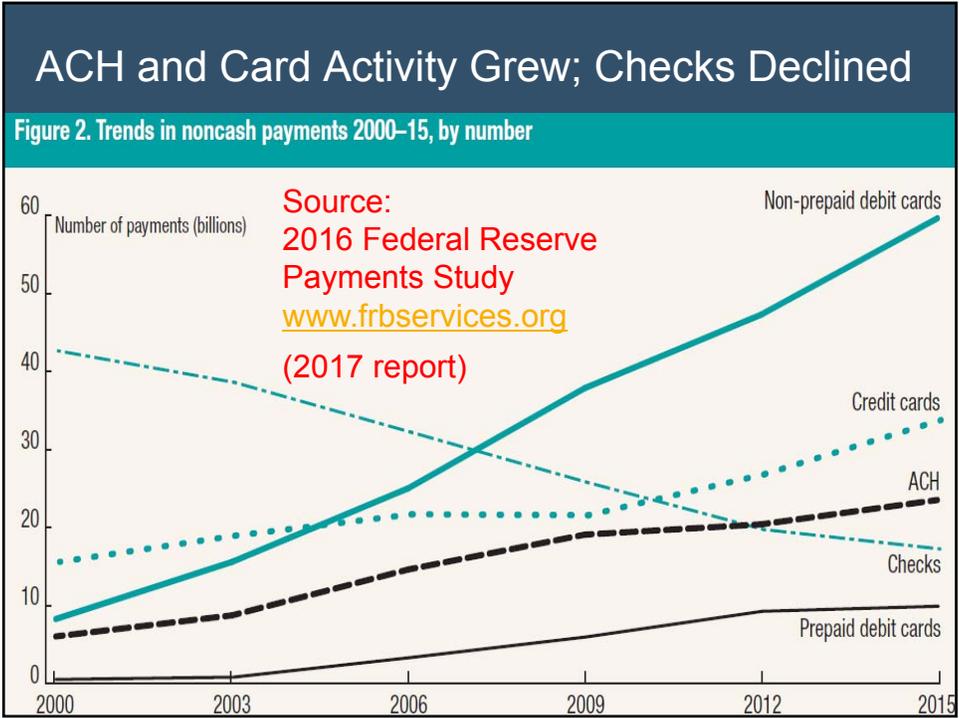


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What's Trending Now?

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### ACH Volume Increases 5.26% in 2016

2016 ACH Network Transactions (does not include on-us volumes)				
	2016	2015	% change	
ARC	1,345,599,186	1,466,889,179	-8.27%	←
BOC	125,073,732	146,477,682	-14.61%	←
CCD Debits	1,000,736,647	950,361,077	5.30%	
CCD Credits	1,973,146,280	1,878,153,317	5.06%	
CIE	161,778,517	162,295,206	-0.32%	
CTX	111,045,469	104,750,968	6.01%	
IAT	83,020,829	73,660,089	12.71%	←
POP	265,493,836	310,281,327	-14.43%	←
PPD Debits	3,724,164,948	3,564,402,091	4.48%	
PPD Credits	6,115,487,264	5,819,349,897	5.09%	
RCK	2,661,108	3,095,278	-14.03%	←
TEL	505,384,533	465,400,576	8.59%	
WEB Debits	4,579,477,314	4,065,441,536	12.64%	←
WEB Credits	78,963,243	57,028,566	38.46%	←
Other	256,714,211	245,516,748	4.56%	
<b>Total Network</b>	<b>20,328,747,117</b>	<b>19,313,103,537</b>	<b>5.26%</b>	

<https://www.nacha.org> © 2017 NACHA - The Electronic Payments Association

## Changing the Payments Landscape

- Digital consumers are increasing and their expectations are increasing!
- Regulations can't keep up.
- Competition is not just local any more.
- Digital Currency: This currency exists solely in digital form and does not have a physical equivalent; there are no metal coins or paper bills.
  - The next 10 years are predicted to change more than the last 50!



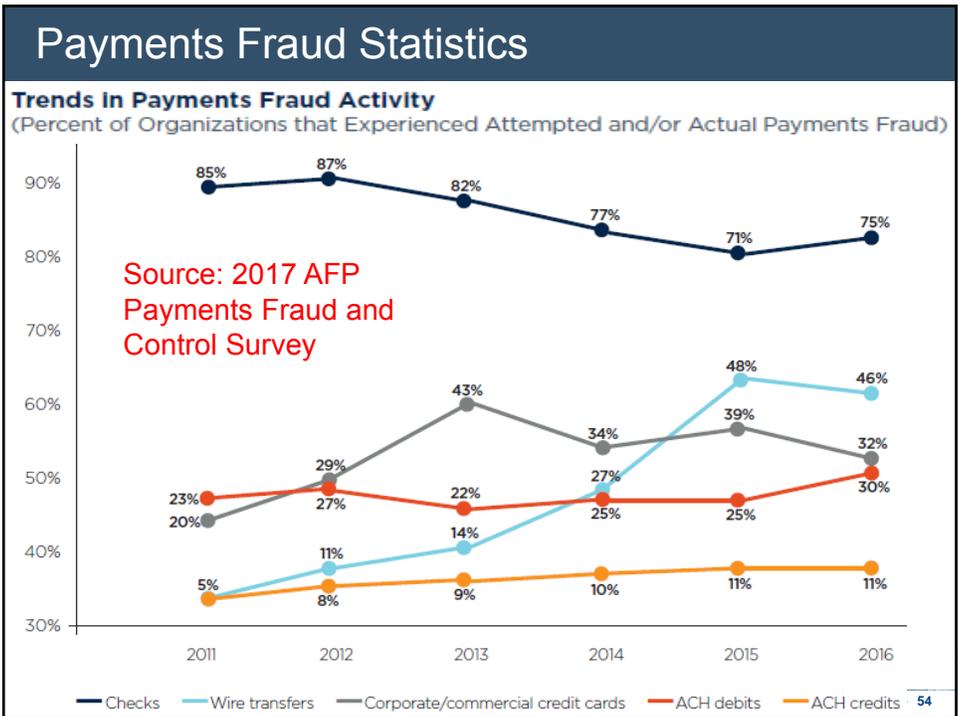
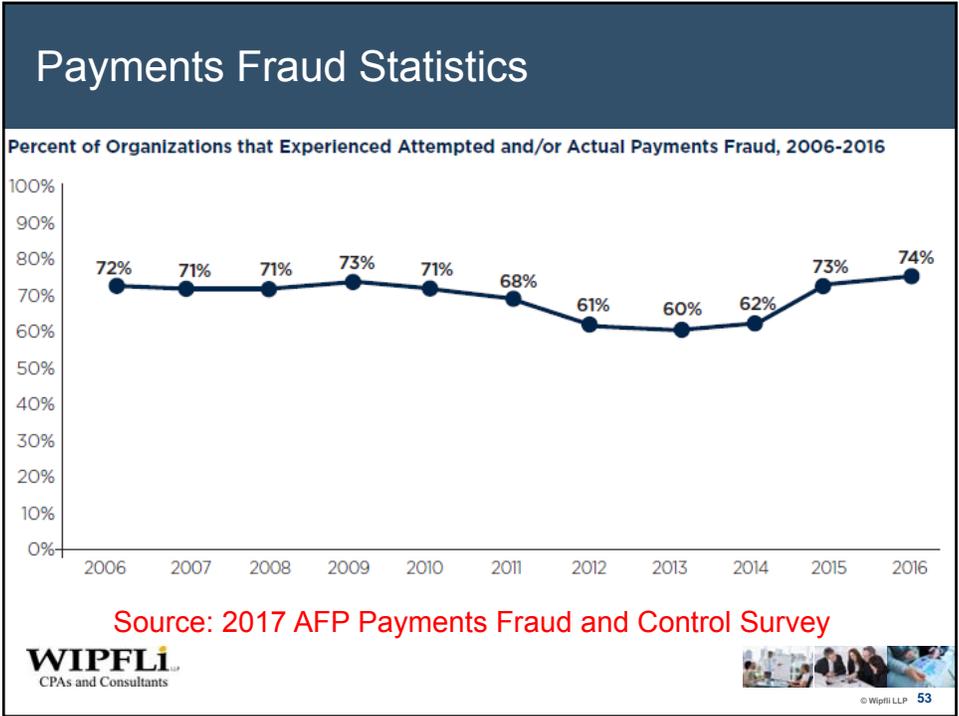
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## What Are Regulators Looking for in the ACH Arena?

- Due diligence and Originator/TPS understanding
  - Know your originator's business and why they need and use ACH.
  - Confirm TPS's annual ACH audit.
  - Request originators to initial acceptance of certain agreement terms, including limits – It's their risk too!
- Security procedures (file verification, token vs. out of band?)
- Annual ACH audit (external audit recommended!)
  - OCC has guidelines that say more than just NACHA minimum audit requirements should be performed.



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## Payments Fraud Statistics

- ACH fraud info – What companies are doing:
  - 60% reconcile accounts daily
  - 50% block all ACH debits except those with debit filter or positive pay
  - 35% create separate accounts for debits initiated by a third party
  - 30% block ACH debits on all accounts

Source: 2017 AFP Payments Fraud and Control Survey



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## Tools and Guidance - Wipfli

- Wipfli offers a free Enhanced online FFIEC cyber assessment tool  
[http://www.wipfli.com/Industry\\_FI\\_Information\\_Technology.aspx](http://www.wipfli.com/Industry_FI_Information_Technology.aspx)



- Wipfli also offers FFIEC Cybersecurity Facilitated Baseline Assessment with automation, guidance, and time savings to the FI starting at \$2,500

[www.wipfli.com/FFIECservices](http://www.wipfli.com/FFIECservices)



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## Wipfli Can Help!

- Annual ACH audits
- ACH training (on site and webinar)
- Completed self-audit evaluation
- Form and procedure evaluation/assistance
- Third-party sender ACH audits
- ACH Policy and Procedures
- ACH Risk Assessment
- Annual data security audits (required for WEB debits)



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## ACH Policy & Procedures

- ACH Policy and Procedures template
  - Updated at least annually with changes highlighted
  - All inclusive for ACH processing: sample authorizations, agreements, letters, forms, etc.
  - Currently priced at:
    - \$100 for recent purchasers (in the prior 3 years)
    - \$200 for others (not purchased in the prior 3 years)
  - [http://www.wipfli.com/Form\\_FI\\_ACH\\_Policy\\_and\\_Procedures.aspx](http://www.wipfli.com/Form_FI_ACH_Policy_and_Procedures.aspx)



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## ACH Risk Assessment

- ACH Risk Assessment
  - Can work for any size financial institution
  - Specific questions without overkill
  - Objective approach to subjective area
  - Make notes for easy updates year to year
  - Currently priced at \$249 (2 Qs added for ODFI SDA since last year)
  - <https://www.wipfli.com/industries/financial-institutions/form-ach-risk-assessment>

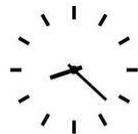
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## ACH Audit Questions/Concerns

- Time for ACH Questions



Q & A time



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