

### 3. ARC and WEB Warranties; RCK Eligible Items

NACHA has amended the ACH Rules to (1) clarify the warranty provisions associated with the ARC and WEB applications, and (2) clarify that items eligible to be re-presented as RCK entries must contain a pre-printed check serial number.

When NACHA replaced the PPD Accounts Receivable Truncated Check Debit Entry pilot program with the ARC entry application, the legal foundation for the application was modified from a legal framework based on check law to one based on Regulation E. During development of the ACH Rules governing ARC entries, however, a key component of an ODFI's liability was omitted with regard to an ODFI's breach of warranty that causes a Receiving Depository Financial Institution (RDFI) to be out of compliance with Regulation E. NACHA therefore has amended the ACH Rule 2.9.3.5 (Liability for Breach of Warranty) to expand the subsection governing the ODFI's liability for breach of warranty for ARC entries to specifically include claims, demands, loss, liability, or expenses incurred by the RDFI resulting from its inability to comply with Regulation E because of a violation of the Rules by the ODFI.

Similarly, as a result of an oversight during the development of the ACH Rules governing WEB entries, no specific provision was included to explicitly address an ODFI's breach of liability associated with WEB entries. NACHA has amended ACH Rule 2.10.2 to specifically address ODFI liabilities for breaches of warranty associated with WEB entries.

NACHA also has amended the ACH Rules to clarify that an item that is truncated and transmitted as an RCK entry must contain a pre-printed check serial number. The ACH Rules related to electronic check applications (*i.e.*, ARC and POP entries) require that an eligible source document used for the application contain a pre-printed check serial number. However, no similar requirement was explicitly stated in the electronic check rules for RCK entries. To avoid operational problems and to provide consistency among electronic check applications, NACHA has added an explicit requirement that to be eligible for truncation and transmission as an RCK entry, an item must contain a pre-printed check serial number. These ACH Rules changes became effective on September 13, 2002.

Under part 210, the ACH Rules addressing warranties for ARC and WEB entries are not applicable to ACH entries originated or received by Federal

agencies. See 31 CFR 210.2(d)(6), (7) (excluding ACH Rule 2.9 and 2.10 from the definition of Applicable ACH Rules). The liability of Federal agencies to RDFIs in connection with the origination of unauthorized debit entries is set forth at 31 CFR 210.6(d). Pursuant to 31 CFR 210.6(d), an agency's liability in connection with the origination of an ACH debit entry is limited to the amount of the entry. Accordingly, we are not incorporating in part 210 NACHA's rule changes related to breach of warranties for ARC and WEB entries. We are, however, incorporating in part 210 the ACH Rule amendment requiring that an item that is truncated and transmitted as an RCK entry contain a pre-printed check serial number.

### 4. Change Codes; ARC Stop Payments; ARC Individual Name Field

NACHA has amended the ACH rules to remove certain codes, create a new return reason code for ARC entries and remove a requirement for ARC entries. Specifically, the amendment removed Notification of Change Codes C10 (Incorrect Company Name), C11 (Incorrect Company Identification), and C12 (Incorrect Company Name and Company identification), because these codes were seldom used by RDFIs.

The amendment also created new Return Reason Code R38 for a stop payment on the source document related to an ARC entry to separate it from Return Reason Code R08. Prior to the amendment, Return Reason Code R08 had two timeframes associated with its use: two days for a stop payment order placed on an ACH debit entry and sixty days for a stop payment order placed on a source document (check) related to an ARC entry. The use of two return time frames associated with one return reason code was confusing to many ACH participants and was inconsistent with other Return Reason Codes. Return Reason Code R08 (Stop Payment) will retain the standard two-day return time frame for stop payments placed on ACH entries.

The amendment also modified the Individual Name Field of the ARC Entry to make it optional to include the individual's name in this field. Prior to the amendment, the Individual Name Field was a required field for ARC entries. In an automated processing environment, where electronic capture of source document information is required, capture of the consumer's name is not possible without manual intervention. The purpose of the rule amendment was to decrease the manual processing required to originate ARC entries and to improve the efficiency with which ARC entries may be

originated by making the Individual Name Field in the ARC Entry an optional field, as is the case with POP entries.

These rule amendments became effective on March 14, 2003. We believe that these rule changes improve the operational efficiency of the ACH system and improve the consistency of the rules that govern the system. Therefore, we are incorporating all of these ACH Rule changes in part 210.

### 5. Unauthorized Corporate Debits; Copies of Authorization; Definitions of POP and RCK Entries, XCK Check Serial Number Field; ACH Operator Edit Criteria; Elimination of RET Code

NACHA has amended the ACH Rules to (1) revise Return Reason Code R29 (Corporate Customer Advises Not Authorized); (2) clarify the right of an RDFI to request a copy of a Receiver's authorization both before and after receiving an entry; (3) establish a 10-banking day timeframe for an ODFI to provide an RDFI with a copy of an authorization when requested by the RDFI; (4) clarify that an ODFI must provide a copy of an authorization to the RDFI without charge; (5) clarify the definitions of POP and RCK entries to define them as Single-Entry transactions; (6) modify the Check Serial Number Field within the XCK format to make it a mandatory field; (7) update the ACH Operators' batch rejection edit criteria regarding valid transaction codes to incorporate loan and general ledger transactions; and (8) eliminate the RET Standard Entry Class Code.

#### Return Reason Code R29

This rule amendment clarified Return Reason Code R29, Corporate Customer Advises Not Authorized. The prior description of Return Reason Code R29 stated, "the RDFI has been notified by the Receiver (non-consumer) that the Originator of a given transaction has not been authorized to debit the Receiver's account." Some ACH participants were misinterpreting the intended use of this return reason code because of its wording. Return Reason Code R29 is used to return a specific ACH debit entry that was not authorized by the corporate Receiver. NACHA did not intend that this return reason code be used to revoke a corporation's authorization for all future ACH debit entries. This amendment clarified Return Reason Code R29 by removing the reference in the description to the Originator of the entry, stating, "the RDFI has been notified by the Receiver (non-consumer) that a specific transaction has not been authorized by the Receiver."