



June 30, 2010

TO: ACH Rulebook Subscribers

FROM: Phyllis Schneider, AAP, Director, Network Rules – Rules Development & Technical Support

RE: 2010 ACH Rulebook – Supplement #1-2010
Rules Simplification and Mobile ACH Payments

FOR YOUR INFORMATION:

Since the publication of the 2010 edition of the *ACH Rules*, NACHA's Voting Membership has approved two amendments to the *NACHA Operating Rules*. The amendment on Rules Simplification provides a more user-friendly set of rules and guidelines for ACH Network participants through (1) the re-organization and re-grouping of material by each type of participant in the ACH Network, and (2) the use of clearer and more consistent language to facilitate user understanding and compliance with the *Rules*. The Mobile ACH Payments Rule establishes a framework in the *NACHA Operating Rules* for the initiation of consumer debit entries via a mobile device.

The Rule changes for both Rules Simplification and Mobile ACH Payments will become effective on January 1, 2011. Details of these changes follow.

Please include these materials with your 2010 edition of the *ACH Rules* to ensure that your rulebook is up to date. This information will also be available under the supplement tab of the online *ACH Rules*.

If you have any questions or comments about the enclosed supplement, please feel free to contact NACHA's Network Rules Department at (703) 561-1100.

Attachments



**NOTICE OF AMENDMENT
TO THE
2010 ACH RULES**

June 30, 2010

SUPPLEMENT #1-2010

1. RULES SIMPLIFICATION

Effective January 1, 2011

2. MOBILE ACH PAYMENTS

Effective January 1, 2011

NACHA OPERATING RULES - SUPPLEMENT #1-2010

Since the publication of the 2010 edition of the *ACH Rules*, NACHA's Voting Membership has approved two amendments to the *NACHA Operating Rules*. The amendment on Rules Simplification provides a more user-friendly set of rules and guidelines for ACH Network participants through (1) the re-organization and re-grouping of material by each type of participant in the ACH Network, and (2) the use of clearer and more consistent language to facilitate user understanding and compliance with the *Rules*. The Mobile ACH Payments Rule establishes a framework in the *NACHA Operating Rules* for the initiation of consumer debit entries via a mobile device. Both of these rule changes will become effective on January 1, 2011. Details of these changes follow.

RULES SIMPLIFICATION

SUMMARY

The amendment on Rules Simplification provides ACH Network users with a more user-friendly set of rules and guidelines. This rule change re-drafts the *NACHA Operating Rules* according to two major principles. First, the simplified *Rules* represent a re-organization that groups together the rights and obligations of each type of participant in the ACH Network. Second, the simplified *Rules* use clearer and consistent language to facilitate user understanding of and compliance with the *Rules*. These modifications make *Rules* information easier to find and easier to understand without altering the substantive meaning of the underlying *Rules*.

In organizing the simplified *Rules* around the types of participants in the ACH Network, the Rules Simplification process acknowledged the major roles played by ODFIs and RDFIs and dedicated a major section to each of these roles. Financial institutions will be able to use these sections to determine their rights and responsibilities regarding any ACH payment transmitted or received. The simplified *Rules* also explicitly recognize that ODFIs are the entry points into the ACH Network for corporate users and third-parties and that the financial institutions are responsible for those parties' compliance with the *Rules*.

IMPACT TO PARTICIPANTS

All ACH Participants

The substantive meaning of the *Rules* is not altered by this amendment. However, ACH participants will need to become familiar with the revised *Rules* structure and format. NACHA and its Regional Payments Associations will make available a variety of education and training materials in the coming months to help those who utilize the ACH Network understand and navigate the simplified *Rules* prior to their implementation.

TECHNICAL SUMMARY

The scope of this *Rules* simplification effort makes it impractical, as part of this supplement, to identify individual sections of the Rules that were impacted by this amendment. ACH Participants desiring an advanced look at the 2011 *NACHA Operating Rules* may wish to purchase a new educational publication entitled "*Navigating the Simplified NACHA Operating Rules*" from the Regional Payments Associations or NACHA.

Implementation Date: January 1, 2011

MOBILE ACH PAYMENTS

SUMMARY

The Mobile ACH Payments Rule (“Rule”) establishes a framework in the *NACHA Operating Rules* for the initiation of consumer debit entries via a mobile device. Specifically, the Rule expands the definition of Internet-Initiated Entries (WEB) to include consumer ACH debits authorized and/or initiated via Wireless Networks and requires that those payments utilize the WEB Standard Entry Class (SEC) Code. The Mobile ACH Payments Rule changes will become effective on January 1, 2011.

KEY COMPONENTS OF RULE AMENDMENT

Internet-Initiated/Mobile Entries

This amendment expands the definition of a WEB entry and the scope of the WEB application to include consumer debit entries authorized and/or initiated via Wireless Networks. All provisions within the *NACHA Operating Rules* that apply to the WEB SEC Code will also apply to mobile debit entries.

Upon implementation, an Internet-Initiated/Mobile Entry (WEB entry) will be defined as a debit Entry initiated by an Originator to a Consumer Account of the Receiver based on (1) an authorization that is communicated, other than by an oral communication, from the Receiver to the Originator via the Internet or a Wireless Network, or (2) any form of authorization if the Receiver’s instruction for the initiation of the individual debit Entry is designed by the Originator to be communicated, other than by an oral communication, to the Originator via a Wireless Network.

Wireless Network

This amendment adds “Wireless Network” as a defined term within the *NACHA Operating Rules*, establishing, for ACH purposes, the concept of an Unsecured Electronic Network for the communication of data using wireless technology.

Unsecured Electronic Networks

This rule change revises the definition of “Unsecured Electronic Network” to include Wireless Networks within its scope and to provide additional clarification on such networks to the industry. Specifically, the rule will define an Unsecured Electronic Network as a network, public or private, that (1) is not located entirely within a single, contiguous, physical facility, and (2) either (a) transmits data via circuits that are not dedicated to communication between two end-points for the duration of the communication, or (b) transmits data via wireless technology (excluding a communication that begins and ends with a wireline connection, but that is routed by a telecommunication provider for a portion of the connection over a wireless system). For clarity, the Internet is an Unsecured Electronic Network, even though secure transmissions may be made over that otherwise unsecure network.

The amendment also revises the requirements for the transmission of ACH information via Unsecured Electronic Networks to clarify that voice or keypad inputs over a wireless telephone to a live operator or VRU will not be subject to the requirement to secure the connection with a minimum of 128-bit RC4 encryption.

IMPACT TO PARTICIPANTS

All ACH Participants

The application of the WEB SEC Code to mobile ACH debits provides clear information to ODFIs, RDFIs, Originators and third parties about how to apply the *NACHA Operating Rules* to this type of payment. Defining the WEB SEC Code and its risk management and security provisions to include mobile ACH payments creates a more stable environment within which to develop payment products and services while reducing the inherent risks.

Originators

Originators offering mobile payments via any Standard Entry Class Code other than WEB must adopt the WEB application for all such transactions no later than January 1, 2011. Originators that are able to originate mobile payments using the WEB application earlier than January 1, 2011 are encouraged to do so.

Within the rule provisions for WEB entries, Originators must do the following:

- Use a fraudulent transaction detection system
- Verify the identity of each Receiver
- Verify the validity of routing numbers
- Perform an annual data security audit

A discrete set of Rules for mobile payments enables Originators (and their Third Party Service Providers) to implement internal processes and procedures for these entries in order to improve operations and customer service, reduce risk and fraud, and minimize exceptions and disputes.

Costs related to implementation will vary depending on an Originator's experience with the ACH Network and whether or not it already originates WEB entries. The major cost of this Rule for Originators will be related to compliance with the security and risk management provisions contained within the Originator obligations for WEB entries. Seasoned Network participants that have already (1) deployed a fraudulent transaction detection system, (2) implemented a commercially reasonable method to verify the Receiver's identity, and (3) conducted annual security audits for other ACH applications are not likely to incur significant cost to comply with the Rule. The cost could be significant for Originators that have never originated WEB entries, but these would be similar to costs they would incur for implementing WEB payments without this Rule change.

ODFIs

ODFIs need to perform due diligence to identify Originators that may be offering mobile payments and originating such transactions using Standard Entry Class Codes other than WEB. Use of the WEB SEC Code for such transactions will be mandatory as of January 1, 2011; Originators that are able to originate mobile payments using the WEB application earlier than January 1, 2011 are encouraged to do so.

ODFIs must set exposure limits and establish related monitoring procedures for each Originator of WEB entries. These risk-management-related provisions are appropriate for the origination of mobile ACH debits.

The anticipated costs to comply with this Rule are limited for ODFIs since no major software changes are anticipated. ODFIs may bear costs associated with reviewing their WEB exposure limits and their agreements with Originators that originate mobile payments. ODFIs may also bear costs related to educating

their Originators on their WEB entry obligations as they apply to mobile payments, in addition to some customer service and training costs associated with the Rule.

RDFIs

The Rule provides RDFIs with additional tools for customer service and for managing the dispute resolution process because they can pinpoint any mobile payment disputes or exceptions to a single SEC Code – WEB.

The anticipated costs to comply with this Rule are limited for RDFIs since no software changes are anticipated.

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 included below and reflect rule language as it will read upon implementation. The effective date selected by NACHA’s Rules and Operations Committee coincides with the effective date of the “Rules Simplification” new rule set, therefore the changes below to the Rules language represent modifications to the 2011 *NACHA Operating Rules*, as approved through the recent Rules Simplification process and ballot.

For ease of use and reference only, the corresponding sections, where applicable, within the current 2010 *NACHA Operating Rules* are also referenced.

- SECTION 1.7 – Secure Transmission of ACH Information Via Unsecured Electronic Networks (current section 1.6): clarifies the conditions under which a communication via telephone would not be subject to the data security requirements required for Unsecured Electronic Networks.
- SUBSECTION 2.5.17 – Specific Provisions for WEB Entries (Internet-Initiated/Mobile Entry) (current section 2.12 and section 3.9): modifies the heading to reflect the change in the definition of a WEB Entry to include mobile.
- SUBSECTION 2.5.17.1 – General Rule for WEB Entries (current subsection 2.12.1): expands the description of WEB Entries to also apply to debits authorized and/or initiated via a Wireless Network.
- SUBSECTION 2.5.17.2 – Authorization of WEB Entries (current subsection 2.1.2, section 3.9): expands the current requirements for authorization of WEB Entries to also apply to debits authorized and/or initiated via a Wireless Network.
- SECTION 8.47 – “Internet-Initiated/Mobile Entry” or “WEB Entry” or “WEB” (current subsection 14.1.72): expands the definition of a WEB Entry to incorporate debit Entries originated based on an authorization from the Receiver that is communicated (other than by an oral communication) to the Originator via the Internet or a Wireless Network, and any Entry, regardless of the original manner in which authorization was obtained, where the Receiver’s instruction to initiate a particular Entry is communicated via a Wireless Network.
- SECTION 8.94 – “Unsecured Electronic Network” (current subsection 14.1.71): - revises the definition to more clearly define the concept of an unsecured Electronic network and to incorporate the use of data transmission using wireless technology within its scope.
- SECTION 8.95 – “Wireless Network”: establishes a new definition of a Wireless Network as an Unsecured Electronic Network for the communication of data using wireless technology.

Implementation Date: January 1, 2011

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As approved May 27, 2010, effective January 1, 2011, the Rules will be modified as follows for Mobile ACH Payments:

ARTICLE ONE — GENERAL RULES

SECTION 1.7 Secure Transmission of ACH Information Via Unsecured Electronic Networks (current section 1.6)

Banking information related to an Entry that is Transmitted via an Unsecured Electronic Network must, at all times from the point of data entry and through the Transmission of such banking information, be either encrypted or Transmitted via a secure session, in either case using a commercially reasonable technology that provides a level of security that, at a minimum, is equivalent to 128-bit RC4 encryption technology. Banking information includes any Entry, routing number, account number, PIN or other identification symbol. This Section applies to Transmissions between:

- (a) a Receiver and an Originator;
- (b) an Originator and an ODFI;
- (c) an ODFI and an ACH Operator;
- (d) an ACH Operator and an RDFI; and
- (e) an Originator, ODFI, RDFI, or ACH Operator and a Third-Party Service Provider.

Transmissions of banking information over an Unsecured Electronic Network by means of voice or keypad inputs from a wireline or wireless telephone are not subject to this section unless the telephone is used to access the Internet. [*Transmissions of banking information over an Unsecured Electronic Network by means of voice or keypad inputs from a wireline or wireless telephone to a live operator or voice response unit are not subject to this section.*]

ARTICLE TWO - RIGHTS AND RESPONSIBILITIES OF ODFIS, THEIR ORIGINATORS AND THIRD-PARTY SENDERS

SUBSECTION 2.5.17 Specific Provisions for WEB Entries (Internet-Initiated Entry) (current subsection 2.12, section 3.9) [SUBSECTION 2.5.17 Specific Provisions for WEB Entries (Internet-Initiated/Mobile Entry) (current subsection 2.12, section 3.9)]

SUBSECTION 2.5.17.1 General Rule for WEB Entries (current subsection 2.12.1)

A WEB Entry is a debit Entry to a Consumer Account originated based on an authorization provided to the Originator by a Receiver via the Internet. [*A WEB Entry is a debit Entry to a Consumer Account originated based on (1) an authorization that is communicated, other than by an oral communication, from the Receiver to the Originator via the Internet or a Wireless Network; or (2) any form of authorization if the Receiver's instruction for the initiation of the individual debit Entry is designed by the Originator to be communicated, other than by an oral communication, to the Originator via a Wireless Network.*] An ODFI must perform, or ensure that its Originator or Third-Party Sender performs, the requirements of Subsection 2.5.17.2 and Subsection 2.5.17.3 below before permitting an Originator or Third-Party Sender to initiate a WEB Entry.

SUBSECTION 2.5.17.2 Authorization of WEB Entries (current subsection 2.1.2)

An Originator must satisfy the requirement for authorization of a WEB Entry by obtaining written authorization from the Receiver via the Internet to initiate a debit Entry to a Consumer Account of the Receiver. *[An Originator must satisfy the requirement for authorization of a WEB Entry to a Consumer Account of the Receiver by (1) obtaining written authorization from the Receiver via the Internet or a Wireless Network; or (2) obtaining the Receiver's authorization in any manner permissible under Subsection 2.3.2 (Authorizations and Notices with Respect to Consumer Accounts), and the Receiver's instruction for the initiation of the individual debit Entry is communicated, other than by an oral communication, via a Wireless Network.]*

The revocation of authorization requirements of Subsection 2.3.2.3(c) (Form of Authorization) does not apply to a Single-Entry WEB Entry.

ARTICLE EIGHT - DEFINITIONS OF TERMS USED IN THESE RULES

SECTION 8.47 "Internet-Initiated Entry" or "WEB Entry" or "WEB" [SECTION 8.47 "Internet-Initiated/Mobile Entry" or "WEB Entry" or "WEB"]

a debit Entry initiated by an Originator to a Consumer Account of the Receiver based on an authorization that is obtained from the Receiver via the Internet. *[a debit Entry initiated by an Originator to a Consumer Account of a Receiver based on (1) an authorization that is communicated, other than by an oral communication, from the Receiver to the Originator via the Internet or a Wireless Network, or (2) any form of authorization if the Receiver's instruction for the initiation of the individual debit Entry is designed by the Originator to be communicated, other than by an oral communication, to the Originator via a Wireless Network.]*

SECTION 8.94 "Unsecured Electronic Network"

a network, public or private, that is not located entirely within a single, contiguous, physical facility and any part of which that has not implemented security technologies that provide a level of security that, at a minimum, is equivalent to 128-bit RC4 encryption technology. *[a network, public or private, that (1) is not located entirely within a single, contiguous, physical facility, and (2) either (a) transmits data via circuits that are not dedicated to communication between two end-points for the duration of the communication, or (b) transmits data via wireless technology (excluding a communication that begins and ends with a wireline connection, but that is routed by a telecommunications provider for a portion of the connection over a wireless system). For clarity, the Internet is an Unsecured Electronic Network, even though secure transmissions may be made over that otherwise unsecure network.]*

[SECTION 8.95 "Wireless Network"

an Unsecured Electronic Network for the communication of data using wireless technology.]