



Rules Interpretation

PROPER USE OF SEC CODES; AGGREGATION OF TRANSACTIONS

November 7, 2007

SUMMARY

This formal interpretation of the NACHA Rules addresses (i) when it is appropriate to aggregate transactions into a single ACH entry, (ii) what is the most appropriate SEC code to use for specific transaction types given the method used to obtain consumer authorization, the manner in which an ACH product is used by the consumer and the information needed by RDFIs and NACHA to manage risk and, in the case of RDFIs, to manage customer relationships, and (iii) what party should be identified in the "Company Name" field of the ACH entry. The NACHA Board has determined that (i) transactions may not be aggregated under the POS or MTE codes, but may be aggregated under the WEB or PPD codes if the transactions are accumulated for more than fourteen (14) days, (ii) if either the POS or MTE code may apply to a transaction that otherwise could be characterized as WEB or PPD, the POS or MTE code, respectively, must be used, and (iii) the payee of the underlying transaction being settled through the ACH should be identified in the "Company Name" field. This interpretation does not address the accumulation by a single merchant of multiple purchases at that merchant (e.g., weekly billing of music purchases at an internet music site). That is a separate issue that will be separately considered by NACHA.

ISSUE

Some providers of ACH services seek to aggregate transactions that occur during a single day, or over multiple days, into a single ACH entry. This aggregation may be attempted across multiple merchants and multiple transactions types (e.g., transactions at retail locations might be combined with ATM withdrawals). Accordingly, the issue has arisen whether such aggregation is permissible under the Rules, and if so, how such transactions should be handled within the existing Rules. As a corollary, if more than one of the POS, MTE, WEB or PPD codes arguably might apply on their face, which code should be used in which circumstances? Moreover, since the payee of such transactions may be different from the Originator who obtains the Recipient's authorization, which name should be included in the "Company Name" field of the ACH message?

INTERPRETATION

The NACHA Rules do not permit aggregation of transactions under the POS or MTE codes. Each time an ACH-linked card or other similar ACH service that can be used at multiple payees is used by a consumer at an electronic terminal in a retail location in the case of the POS code, or

at an ATM in the case of the MTE code, the ODFI must submit a separate ACH entry that is properly formatted using the POS or MTE SEC codes, respectively. Multiple transactions at one or more electronic terminals may not be aggregated in a single POS or MTE entry.

Transactions may be aggregated under the WEB or PPD codes only in the following circumstances. The PPD code may be used for a properly authorized ACH transaction that represents a single payment on a separate account regardless of whether there have been multiple charges by the consumer to that account (i.e., for a bill payment), provided that each such payment on account covers at least fourteen (14) days of transactions. If the original enrollment for an ACH service was performed on the internet, the WEB code may be used for a properly authorized ACH transaction that represents a single payment on a separate account regardless of whether there have been multiple charges by the consumer to that account (i.e., for a bill payment), provided that each such payment on account covers at least fourteen (14) days of transactions. This fourteen (14) day window provides a clear dividing line between payments on an account, such as monthly bill payments (e.g., the monthly payment of a charge card bill), and transactions that are effectively pass-through debits to a deposit account at an RDFI.

If a consumer has an account that ordinarily is billed in periods of more than fourteen (14) days, and the consumer separately authorizes an individual payment on account for a period of less than fourteen days (for example, by logging on to the biller's website to make an individual interim payment prior to the close of a monthly billing cycle), the ODFI may process such transaction as a single PPD or WEB transaction, depending on whether the original enrollment for the ACH service was obtained on the internet. A separate authorization of payment in this context must be a specific authorization of the specific total amount to be debited at that time, and a separate specific authorization must be obtained from the consumer each time another payment of fourteen (14) days or less is made. For clarity, the use of a debit card at the point-of-sale does **not** constitute a separate specific authorization for this purpose.

Furthermore, the SEC Code Allocation Chart attached hereto provides guidance on the appropriate SEC Code to use in connection with transactions based on how an ACH service is being used and how the original authorization for that service was obtained. For example, if an Originator provides a debit card to consumers that can be used for a variety of transactions pursuant to a written, standing authorization to debit the amount of those transactions to a deposit account at an RDFI, the transactions should be handled as follows: Each use of the debit card at a point-of-sale terminal should be treated as a separate POS transaction; each use of the debit card at an ATM should be treated as an MTE transaction; and each use of the debit card to make purchases on the internet should be treated as a PPD transaction. By contrast, if the Originator obtains the consumer's original standing authorization for the same product via the internet, the transactions should be handled as follows: Each use of the debit card at a point-of-sale terminal still should be treated as a separate POS transaction; each use of the debit card at an ATM still should be treated as an MTE transaction; but each use of the debit card to make purchases on the internet should be treated as a WEB transaction. As indicated above, the Originator may not aggregate multiple transactions across multiple payees. However, if the "account" offered by Originator is only billed to the consumer for periods of more than fourteen (14) days, then those transactions may be processed as a single bill payment transaction under the PPD or WEB code, respectively, for the total amount owing at the end of such period.

Finally, in order to provide appropriate information to the RDFI and NACHA, the party identified in the "Company Name" field of the ACH Entry in each of these cases should be the party to which the funds ultimately will be transferred. For example, in the card product above, the ultimate payee is the merchant or owner of the ATM where the card is used, not the Originator that issues the card. Similarly, in a bill payment service, the ultimate payee is the biller, not the provider of the bill payment service.