

# Reversals and Enforcement

## EFFECTIVE DATE

June 30, 2021

## RULE STATUS

Recently Implemented Rule

The overarching purpose of these two Rules is to deter and prevent, to the extent possible, the improper use of reversals and the harm it can cause.

The two Rules explicitly address improper uses of reversals, and improve enforcement capabilities for egregious violations of the Rules.

The Enforcement rule became effective January 1, 2021, and the Reversals rule became effective June 30, 2021.

## Details

### Reversals

This Rule explicitly address improper uses of reversals. It expands the permissible reasons for a reversal to include a “wrong date” error – 1) the reversal of a debit Entry that was for a date earlier than intended by the Originator, or 2) a credit Entry that was for a date later than intended by the Originator.

The Rule establishes formatting requirements for reversals, beyond the current standardized use of the Company Entry Description field (“REVERSAL”):

- The Company ID, SEC Code, and Amount fields of the reversal must be identical to the original entry
- The contents of other fields may be modified only to the extent necessary to facilitate proper processing of the reversal
- This is the same approach as the formatting requirements for Reinitiated Entries

In addition, the rules explicitly permit an RDFI to return an improper Reversal:

- R11 for consumer accounts, 60-day return timeframe upon receiving a consumer claim
- R17 for non-consumer accounts, 2-day return timeframe
- An RDFI will be permitted to use R17 to return an improper Reversal that it identifies on its own (i.e., not based on a customer contact), 2-day return timeframe

## Enforcement

This Rule defines an Egregious Violation as:

- A willful or reckless action, and
- Involves at least 500 Entries, or involves multiple Entries in the aggregate amount of at least \$500K.

The Rule also allows the ACH Rules Enforcement Panel to determine whether a violation is egregious, and to classify an Egregious Violation as a Class 2 or 3 Rules Violation.

- The sanction for a Class 3 violation can be up to \$500,000 per occurrence and a directive to the ODFI to suspend the Originator or Third-Party Sender

In addition, the Rule expressly authorizes Nacha to report Class 3 Rules violations to the ACH Operators and industry regulators.

## Technical

## Impact

### Reversals

#### *Benefits*

Originators, Third-Party Senders, and ODFIs have a clearer and more consistent understanding of when NOT to initiate reversals; in particular, with regard to the failure to fund an ACH credit file.

The ability for RDFIs to return improper reversals will become more efficient. Recourse for improper reversals will be able to be handled through the ACH return process.

#### *Impacts*

ODFIs, Originators, and Third-Party Senders may want to review practices, policies, and controls regarding reversals.

RDFIs that want to take advantage of the return process may need to establish policies and practices that facilitate the return of an improper reversal.

### Enforcement

#### *Benefits*

Nacha will have the authority to better enforce the Rules for egregious violations. More significant enforcement will be available to be used in cases involving outlier violations.

Lessens the risk to all ACH Network participants of experiencing egregious violations.

#### *Impacts*

Participating DFIs should be aware of the changes to Nacha's enforcement capabilities and should consider updating and educating their customers on the changes to and potential impacts of the enforcement process.