



**NOTICE OF AMENDMENT  
TO THE  
2008 ACH RULES  
April 30, 2008**

**SUPPLEMENT #3-2008**

- 1. ACH RULES: Delay in Implementation of Formal Rules Interpretation**
  - 2. NACHA OPERATING GUIDELINES: Company Name Identification**
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## **ACH RULES: DELAY IN IMPLEMENTATION OF FORMAL RULES INTERPRETATION**

On March 20, 2008, NACHA's Board of Directors approved a delay in the implementation date of the Formal Rules Interpretation on the Proper Use of SEC Codes and Aggregation of Transactions. Initially due to implement on May 5, 2008, this Formal Rules Interpretation will now become effective on August 4, 2008. The specific details of this Formal Rules Interpretation remain unchanged by the Board's action regarding the implementation date and are located within the 2008 rulebook under the section entitled "*Formal Interpretations of the NACHA Operating Rules.*" A brief summary of this interpretation is provided below.

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### **FORMAL RULES INTERPRETATION ON PROPER USE OF SEC CODES AND AGGREGATION OF TRANSACTIONS**

#### **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.

**Revised Implementation Date: August 4, 2008**

## NACHA OPERATING GUIDELINES

This Supplement #3-2008 adds new language to the NACHA Operating Guidelines related to the rule change clarifying the proper use of the Company Name Field, which will become effective on June 20, 2008. Examples of certain types of origination scenarios and the proper use of the Company Name Field in those cases are provided to assist Originators and ODFIs in properly identifying Originators of ACH payments.

*Effective June 20, 2008, the NACHA Operating Rules will be modified to incorporate clarifications to the definition of the Company Name Field within the Company/Batch Header Record. The NACHA Operating Guidelines will be modified as follows to provide guidance related to this change:*

### SECTION II – PARTICIPANT RELATIONSHIPS

#### CHAPTER I – ORIGINATORS

##### M. PROCESSING REQUIREMENTS AND RESPONSIBILITIES

###### 2. COMPANY NAME IDENTIFICATION

To ensure clear identification of the source of an ACH transaction, the *Rules* contain specific requirements with respect to how an Originator must identify itself within an ACH record. The *Rules* specifically require the Originator to populate the Company Name Field with the name by which it is known to and readily recognized by the Receiver of the entry. This name could, for example, be the Originator's DBA name or "trading as" name. The inclusion of a readily recognizable Originator name ensures that the Receiver is able to identify a transaction appearing on his periodic statement. The clear identification of the Originator of an ACH transaction also improves overall network quality through a reduction in the number of unrecognized entries requiring investigation and/or return by the RDFI.

The *Rules* also define specific content requirements for the Company Name Field for transactions in which the party initiating the payment is not the ultimate payee or payor of a transaction -- that is, where a third party is involved in the origination of the payment. Specifically, for any ACH debit transaction in which the party transmitting the entry into the ACH Network is not the payee of the transaction (which is defined as the party to which payment is ultimately being directed), the Company Name Field must contain the name by which the payee is known and readily recognized by the Receiver. For any ACH credit transaction in which the party initiating the entry into the ACH Network is not the payor of the transaction (which is defined as the party from which payment is ultimately being directed), the Company Name Field must contain the name by which the payor is known and readily recognized by the Receiver. This requirement is consistent with Regulation E, which requires an RDFI to provide the name of any third party to or from whom funds were transferred on the consumer's periodic statement.

The following scenarios provide examples of how the Company Name Field is to be used in a variety of payment models.

- **Example #1** – SmartPay, Inc., provides a variety of payment processing services on behalf of several insurance companies, offering lockbox services, check conversion, ACH debit origination, and general accounts receivables and policy management services through a centralized location. Policy holders deal with SmartPay directly regarding billing issues or questions regarding the payment of insurance premiums. Although SmartPay, Inc., handles all of the payment processing functions, including collecting money from policy holders, it is considered to be a third party acting on behalf of each insurance company rather than

the party to which funds are ultimately being directed by the insured. In this model, the Company Name Field for any debits originated to the policy holders' accounts by SmartPay must contain the name of the insurer issuing the policy and providing coverage rather than SmartPay, which consolidates payments on behalf of those parties.

- **Example #2** – Lisa Roberts has a checking account at MegaBank and uses MegaBank's online banking product to make payments electronically. Today, she wants to transfer funds from her checking account to her mother's account at Industrial Bank, and instructs MegaBank to send the payment. MegaBank creates a PPD credit to Lisa's mother's account at Industrial Bank and transmits it into the ACH Network on her behalf. In this example, Lisa Roberts' name must be placed within the Company Name Field for this payment. Although MegaBank initiated the payment on Lisa's behalf, it is not considered to be the party from which payment is ultimately being directed.

The requirement to include the name of the individual originating the payment within the Company Name Field of the entry (rather than the name of the ODFI processing the transaction) is necessary to ensure that the Receiver can recognize the source of the entry and to ensure consistency with Regulation E, which requires an RDFI to provide on the consumer's statement the name of any third party to or from whom funds were transferred. (In this example, Lisa's mother would recognize Lisa's name on her bank statement but not the name of Lisa's bank - a party with which she has no relationship.) In order to properly identify each individual originating an account-to-account transfer like Lisa, MegaBank will be required to create a separate batch of entries for each account holder instructing payments to be made on his or her behalf.

- **Example #3** – ABC Company offers a salary redirection program to its employees for flexible spending accounts for health and dependent care. A salary redirection agreement is executed between John Smith, an employee of ABC Company, and FSA4U, the plan administrator for ABC Company's flexible spending account program. Under this agreement, Mr. Smith authorizes the plan administrator to initiate ACH entries and agrees to submit specific documentation to the plan administrator prior to the origination of an ACH credit. In an IRS-defined salary deferral program of this type, the plan administrator has a direct contractual relationship with the employee and his or her authorization to initiate ACH credits to support this program and would be identified in the Company Name Field of the entry.

- **Example #4** – Miss Johnson decides to place a catalog order with TrailsEnd, an outdoor outfitter, and visits the company's website for more information. There she places her order for camping supplies and authorizes payment to be made electronically from her checking account. Later that month, when she receives her bank statement, she notices a debit entry that she doesn't recognize from Outdoors, Inc. Miss Johnson signs a written statement under penalty of perjury and requests her bank to recredit her for this entry, as she has never heard of Outdoors, Inc. She later discovers that Outdoors, Inc. is the parent company for TrailsEnd and realizes that the debit was for her earlier internet purchase. In this situation, the Company Name Field should have identified TrailsEnd as the Originator – a name that would have been readily known to and recognized by Miss Johnson – and not the name of the parent company.

- **Example #5** – Industrial Corporation, a large manufacturing firm, outsources the processing of its employee payroll and expense reimbursement to EZPay ACH Services. EZPay also offers similar services to many other corporate clients, consolidating the work of Industrial Corporation and those other companies and originating transactions through EZPay's own account at Super DFI. Super DFI has an account relationship and an ACH origination agreement directly with EZPay, but it does not have any relationship directly with Industrial Corporation or the other clients of EZPay.

In this example, EZPay is a third party involved in the origination of ACH transactions on behalf of the actual Originators of the payment, where there is no contractual relationship directly between the ODFI and each Originator. Under the NACHA Operating Rules, EZPay is considered to be a Third-Party Sender. Although EZPay initiates the payroll files into the ACH Network through its own account at its own financial institution, it must identify Industrial Corporation and its other clients as the Originators of the payroll files to ensure the entries can be recognized by the companies' employees and for purposes of complying with

Regulation E, which requires the name of the third party from which funds are transferred to be provided on the employees' bank statements.

- **Example #6** – Mr. Jones uses the internet to establish an account relationship with InstaPay, an online bill payment service provider serving hundreds of consumers. Mr. Jones provides instructions to InstaPay regarding the specific bills to pay each month. Today, Mr. Jones also instructs InstaPay to send a payment to ABC Credit Card Bank to pay his monthly credit card bill. InstaPay pays ABC Credit Card Bank for the amount due from Mr. Jones and, through its own financial institution, initiates a debit entry to Mr. Jones' checking account at First Bank and Trust. Even though InstaPay initiated the debit entry into the ACH Network through its own financial institution, it is acting in the capacity of a third party on behalf of the ultimate payee. In this example, InstaPay must identify ABC Credit Card Bank (rather than itself) in the Company Name Field of the debit to Mr. Jones' account to ensure that Mr. Jones can properly identify the payment and to ensure compliance with Regulation E, which requires the RDFI to identify on the consumer's statement the third party to which funds are transferred.

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## SECTION II – PARTICIPANT RELATIONSHIPS

### CHAPTER II – ODFIs

#### L. PROCESSING REQUIREMENTS

##### 2. COMPANY NAME IDENTIFICATION

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ODFIs warrant proper formatting of all ACH transactions, including the appropriate use of the Company Name Field to adequately identify the source of the payment. To minimize the potential for any violation of the Rules as it relates to the use of this field, it is important that the ODFI ensure that its Originators populate the field properly. Sample payment scenarios are provided within the Company Name Identification section of the Originators chapter of these Guidelines to illustrate proper use of this field.