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Via electronic submission

July 10, 2020

Ms. Jane Larimer
President and CEO
Nacha – The Electronic Payment Association
2550 Wasser Terrace, Suite 400
Herndon, VA 20171

RE: Request for Comment on Account Information Improvements

Dear Ms. Larimer:

ICBA commends Nacha for continuing to take a leadership role in the ACH Network and for employing strategic approaches to modernize the ACH Network and create efficiencies in the face of evolving technology and emerging use cases. The Independent Community Bankers of America (“ICBA”)¹ is pleased to submit comments to Nacha regarding a set of proposed amendments to the *Nacha Operating Rules* (“*Nacha Rules*” or “*Rules*”) and other concepts collectively referred to as “Account Information Improvements.”

One of the challenges that ACH Originators and service providers face in originating ACH payments is validating that the account information is correct. Many Originators do not currently use the ACH for account validation as they consider the existing processes to be slow, and the Originator and its Originating Deposit Financial Institutions (“ODFIs”) do not receive a confirmation if the prenotification is successful. Additionally, Receiving Deposit Financial Institutions (“RDFIs”) are often concerned that corrected account information provided in Notifications of Change (“NOCs”) is often ignored.

¹*The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ nearly 750,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than \$5 trillion in assets, nearly \$4 trillion in deposits, and more than \$3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers’ dreams in communities throughout America. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.*

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This set of proposed rule amendments would:

1. Provide a mandatory “Yes/No” response by a RDFI, shorten the related timeframes, and standardize the formatting for prenotifications;
2. Standardize formatting for the use of Micro-Entries; and
3. Improve compliance with Notifications of Change.

Nacha intends these changes to benefit ACH Network participants by providing more reliable, low-cost, network-based solutions to validate a Receiver’s account, while standardizing ACH user-experience and reducing certain administrative burdens on ODFIs and their Originators and RDFIs and their customers.

Nacha proposes that these rules would go into effect on March 18, 2022.

Proposal Part 1- Prenotifications

Prenotifications are zero-dollar test transactions that Originators can use to determine if the account information is accurate prior to initiating live entries. Currently, RDFIs respond to a prenotification only when the account information is not valid by submitting a Return or a Notification of Change (“NOC”). There is no positive confirmation when account information is valid.

Under this proposal, an RDFI would respond with a “Yes” or “No” to all prenotes, using the ACH Acknowledgement Entry (“ACK”), which would be re-purposed as part of the proposed amendment to the *Rules* to provide a response. This proposed acknowledgement framework would take the place of the current framework that uses Returns and NOCs. Prenotifications would have the word “VALIDATION” in the Company Entry Description Field and the Company Name field must contain the name by which the Originator is known to and readily recognized by the Receiver, and must be the same Originator name to be used in future, live ACH Entries.

While ICBA generally supports using the ACH for account validation as a low-cost alternative account validation method for Originator and ODFIs, we are concerned about the burden associated with RDFIs providing a response for every prenotification. RDFIs have little means to recover the costs associated with this additional burden. ICBA is also concerned with the software changes needed to facilitate this change, as the Acknowledgement would have to be automated within the software to decrease the burden to the RDFI. The overall benefit to Originators and ODFIs should be measured against the increased burden to RDFI and related software costs.

ICBA strongly urges Nacha to dialogue with core processors and payments processors on the feasibility of an automated response and whether the proposed March 18, 2022 effective date provides sufficient time for systems development and related testing. Many processors may already have a validation system in place to meet compliance with the March 2021 *Rules* change; the additional changes described in this proposed amendment to the *Nacha Rules* may not offer

additional value to community banks who rely on these processors. Additionally, Nacha's dialogue with core processors should include how to manage the burden to the RDFI, the overall cost of automating the Acknowledgement, and whether this can be achieved by March 18, 2022 during a time when many organizations are managing competing priorities related to COVID-19.

Proposal Part 2 - Micro-Entries for Account Validation

The use of ACH small dollar entries for account validation was created as an unofficial means of validating the account, but currently is not defined or described in the *Nacha Rules*. This proposed rule amendment would recognize Micro-Entries as a specific means of account validation and codify the procedures and formatting related to them. Specifically, the proposed rule amendment defines a Micro-Entry as an entry for less than \$1 that is used for account validation and an Originator may originate one or more Micro-Entries for the purpose of validating a Receiver's account with the RDFI. An Originator that has originated one or more Micro-Entries to a Receiver's account may initiate subsequent live Entries to the Receiver's account as soon as the Receiver completes the Originator's process for validating the amounts of the Micro-Entries.

This proposal would establish standardized formatting requirements for Micro-Entries, which would have with the word "VALIDATION" in the Company Entry Description Field. The Company Name field of a Micro-Entry must contain the name by which the Originator is known to and readily recognized by the Receiver must be the same Originator name to be used on future, live Entries.

ICBA supports standardizing Micro-Entries to be easily recognized by both the Receiver and its RDFI. Since Micro-Entries are already in use, this rule change is expected to create minimal burden for the RDFI. The proposed March 18, 2022 effective date should provide sufficient time for systems modification.

Proposal Part 3 – Notifications of Change

Many RDFIs are concerned about the effectiveness of the NOC process. This proposed rule amendment would require the ODFI to provide information from a NOC to its Originator within one Banking Day. Currently, *Nacha Rules* require the ODFI to provide information from a NOC to its Originator within two Banking Days. Additionally, an Originator would be prohibited from invalidating a Receiver's authorization due to the receipt of a NOC and Originator may not require the Receiver to confirm the validity of the corrected data provided by the RDFI.

The proposal would also increase enforcement for not using the corrected information provided in a NOC. An ODFI's first violation for failure by its Originator to use corrected information may be classified as a Class 1 *Rules* violation (i.e., subject to a fine). An ODFI's second violation for the same infraction by the same Originator for failure to use corrected information may be classified as a Class 2 *Rules* violation.

ICBA supports the requirement to prohibit an Originator from invalidating a Receiver's authorization due to the receipt of a NOC as it streamlines the NOC process. This accelerates the

NOC process by eliminating the need to require a new authorization and ensures that the Receiver's initial authorization is executed in a manner that can be posted by its RDFI.

ICBA urges Nacha to engage payment providers, core processors and correspondent banks that assist community banks as ODFI to determine the impact of reducing the NOC timeframe from two Banking Days to one Banking Day and assess whether that is achievable with multiple correspondents.

Finally, ICBA does not support classification of the first NOC violation as a Class 1 violation. The ODFI should receive a warning for the first NOC violation and could be subject to a Class 1 *Rules* violation upon subsequent infractions that are indicative of willful disregard of the *Nacha Rules*.

ICBA appreciates the opportunity to comment on these proposals. Please do not hesitate to contact me at Cary.Whaley@icba.org or (202) 659-8111 with any questions regarding our comments.

Sincerely,

/s/

Cary Whaley
First Vice President, Payments and Technology Policy

cc: Michael Herd, William Sullivan, Maribel Bondoc