

Reversals-Why and How?

File Recall

Once an Entry or File has been received by an ACH Operator, Originators and ODFIs may not:

- Recall a File/Entry;
- Require the return/adjustment of an Entry; or
- Stop payment/posting of an Entry

Exceptions:

- Section 2.9 (Reversing Files);
- Section 2.10 (Reversing Entries); &
- Section 2.11 (Reclamations & Written Demands for Payment)

Reversing Entry

- Initiated by Originator or ODFI to correct Erroneous Entry previously initiated to Receiver's account
- Must be Transmitted within 5 Banking Days after Settlement Date of Erroneous Entry
 - Last File distribution at 6:30 am ET on Banking Day 6 is still considered timely
- ODFI indemnifies every Participating DFI and ACH Operator
- Originator must make reasonable attempt to notify Receiver of Reversing Entry and reason no later than Settlement Date of Reversing Entry
 - When related to Receiver's employment, Originator must notify Receiver when Check is delivered
- Debit Reversal cannot settle prior to related credit Erroneous Entry

Erroneous Entry Conditions

- Duplicate of previous Entry initiated by ODFI or Originator
- Payment to or from Receiver different than intended by Originator
- Payment was in amount different than intended by Originator
- Payment of debit Entry earlier than Receiver was intended to be debited
- Payment of credit Entry on date later than receiver was intended to be credited
- Credit PPD Entry satisfying each of following criteria
 - Entry is related to Receiver's employment
 - Value of credit is fully included in amount of Check delivered to same Receiver at or prior to Receiver's separation from employment
 - Entry was Transmitted by Originator prior to delivery of Check to Receiver

Formatting Requirements for Reversing Entries

- Includes the word “REVERSAL” in the Company Entry Description field of Company / Batch Header Record
- “REVERSAL” must replace original content of Company Entry Description in original batch
 - Company ID, SEC Code, & amount fields must be identical to corresponding fields in Erroneous Entry
 - Other fields may be modified only to extent necessary to facilitate processing

Reversing File

- Initiated by ACH Operator, Originator, or ODFI to reverse all Entries within Erroneous File
- Must be Transmitted within 5 Banking Days after Settlement Date of Erroneous File
 - Transmit within 24 hours of discovering error
- ODFIs may not reverse Files in case of failed settlement by Originator

Reversing File

- “REVERSAL” must be specified in Company Entry Description field within Company / Batch Header Record
- Correcting File is required to accompany Reversing File when File is reversed because of Erroneous File
 - Unless Erroneous File condition is duplicate
- ODFI or ACH Operator initiating Reversing File or Correcting File indemnifies other Participating DFIs and ACH Operator from losses
- ODFI is responsible for Reversing Files and Correcting Files initiated by its Originators

Reversing Files/Entries

Reversing File	Requirements	Reversing Entry
Originator, ODFI, or ACH Operator	Initiated by?	Originator/ODFI
Yes	Transmit within Five Banking Days?	Yes
Yes	Transmit within 24 Hours of Discovery of Error?	No
Yes (unless duplicate)	Send Correcting File?	No
'REVERSAL'	Company Entry Description?	'REVERSAL'
No	Originator Notify Receiver?	Yes
ODFI/ACH Op. indemnifies RDFI and ACH Operator	Indemnity?	ODFI indemnifies RDFI and ACH Operator

Possible Reversal Prior to Settlement



Egregious Violation

- Rule allows Nacha to begin a network enforcement action for actions deemed egregious
- Defined as both
 - Caused by willful or reckless action
 - Involving at least 500 Entries or involving multiple Entries in the aggregate amount of at least \$500k
- Allows Rules Enforcement Panel ability to classify as Class 2 or 3 violation and report Class 3 to ACH Operators and industry regulators

Improperly-Initiated Reversal Descriptions

- Reversing Entry for any reason not explicitly listed in Subsection 2.9.1
 - See slide titled Erroneous Entry Conditions
- Reversing Entry or Reversing File by ODFI because Originator or Third-Party Sender or any other downstream customer failed to provide funding
- Reversing Entry or Reversing File outside of time periods permitted by the Rules
- Improperly-initiated situations not limited to above conditions

RDFI Handling Improper Reversals

- Rules allow RDFI to return transactions that are improperly-initiated Reversing Entries as unauthorized or as field errors
 - Consumer Accounts – R11, 60-day Return time frame
 - Non-Consumer Accounts & RDFI identified – R17, 2-day Return time frame

Case Studies

Duplicate File

Acme Bank accidentally sent their 10:30 a.m. ET File to their ACH Operator twice at the exact same time.

- Can they send a Reversing File?
- Why or why not?
- What about a Correcting File?

Originator Bankruptcy

One of ODFI Credit Union's Originators uploads their weekly employee expense reimbursement File to OCU on Wednesday morning for settlement on Friday.

OCU sends the credit File to the ACH Operator on Wednesday afternoon.

The Originator files for bankruptcy on Thursday morning.

- Can OCU submit a Reversing File?

Account Number Changed

Tuesday afternoon Acme Company's HR department receives an email from Sarah requesting a change to her payroll direct deposit account.

State Bank, Acme's ODFI, requires payroll Files be submitted by 4:00 p.m. local time on Wednesday for settlement on Friday. Riley updates Sarah's records and the payroll File before sending it to State Bank.

Friday morning Sarah contacts Acme Company's HR department asking about her pay. Realization sets in that the email requesting the change was not from Sarah.

Riley immediately contacts State Bank and asks for help initiating a Reversal.

- Can a Reversal be used for this case? Why or why not?

Wrong Amount

Bob's Bike Shop creates a batch containing 50 PPD Entries. 10 of the Entries had the dollar amount doubled, which falls into the definition of Erroneous Entry condition for the 10 Entries. Rather than create Reversing Entries for the 10 Erroneous Entries, Bob's Bike Shop decides to

- Use the batch with the Erroneous Entries to create a batch to reverse all 50 Entries
 - Fix the 10 incorrect dollar amounts and create a new batch with all 50 PPD Entries
 - Initiate both the reversing batch and the correcting batch at the same time
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- Is Bob's Bike Shop compliant with the Rules?
 - Why or why not?

NSF Account

While working the unposted items for State Credit Union, Casey notices a properly formatted Reversal on the report for Bob's account. After reviewing the account, it appears Bob received his payroll twice.

Apparently, Bob had also reviewed his account and noted the overpayment because he withdrew the amount of both payroll deposits leaving \$3.27 in the account.

- How should Casey handle the Reversal?

Annuity Reversal

Peak Insurance initiated an annuity payment for monthly benefits to Anne. Peak Insurance learns of Anne's death the day after settlement of the most recent annuity credit. The annuity program administrator initiates a Reversing Entry to pull back the post-death benefit payment.

- Is this a compliant Reversal?
- Why or why not?

Formatting Issue

Monday morning, Jess contacts State Bank because an Entry posted that reversed her payroll out of her account. She wants to know how this could happen and informs State Bank she did not give Bob's Bike Shop permission to debit her account.

After reviewing Jess' account, Sarah finds the amount similar to the previous week's amount. Everything seems to match Jess' payroll deposit; however, Sarah realizes the Reversal amount matches an Entry from 2 weeks ago and not the most recent deposit.

- What are Sarah's options for handling Jess' concern?

