

A Third Party Sender's Guide to ACH Compliance¹

A Third Party Senders (TPS) can occupy an important place between originators and Old National (as Originating Depository Financial Institution (ODFI)). As such, they take on much of the same liability and responsibility for keeping the ACH network strong and safe as Old National. This guide summarizes the requirements of a TPS according to the ACH Rules.

Originator Due Diligence

A TPS is in the best position to collect information about its originators because it holds the origination agreement and the relationship. Old National must rely on the TPS to provide accurate and complete information via the Due Diligence Profile for each originator as the relationship is established to minimize the risk to the TPS and to the bank.

Monitoring Activity

In order to fully understand its ACH activity, a TPS is required to perform the same types of monitoring as the ODFI:

- Restrict the types of transactions that an originator may utilize, such as consumer credits only for payroll clients, or corporate debits and credits for account transfers.
- Establish an exposure limit for each originator, which is both a basic fraud prevention tool and a good catalyst to periodically review each originator's needs and financial situation.
- Monitor all origination and return activity over multiple settlement dates; this is known as rolling exposure, and it is the best measure of ACH risk. Credit originations and corporate debit originations should use a three-day rolling total, and consumer debit originations should use a 60 day rolling total, according to the return timeframes.

Risk Assessment

Each TPS must conduct a risk assessment related to their ACH activity, to be reviewed at least annually. The risk assessment should assess the following:

1. The nature of the risks associated with their ACH activity, e.g. the risk in payroll origination lies in the time period between submitting a payroll file to be processed and the settlement of the payroll file – a TPS could minimize that risk by collecting funds before sending out payroll.
2. Appropriate due diligence – how well do you know each customer/originator?
3. Establishing controls for originators – are the monitoring tools in place sufficient to control risk?
4. Risk monitoring and mitigation – assess the management, information, and reporting systems used to control risk.

Annual Audit

A TPS is required to complete virtually the same annual ACH audit as Old National, which covers data security, record retention, agreements and authorizations, and all of the topics listed above. The audit covers the rules set forth in the current year's Nacha Operating Rules & Guidelines; it can be conducted internally by appropriate personnel or by an independent external auditor. Contact your Treasury Management Officer for the current ACH audit requirements or a referral to a qualified external auditor.

¹ 2022 NACHA Operating Rules and Guidelines OG319-320