



NEW IN 2017: MANDATORY THIRD-PARTY SENDER REGISTRATION

The 2017 NACHA Operating Rules and Guidelines have been updated to include mandatory registration of Third-Party Senders by Participating Depository Financial Institutions.

What is a Third-Party Sender?

A Third-Party Sender is an entity that transmits ACH entries via an ODFI on behalf of an Originator. It is important to note that it is required to have an ACH Origination agreement between the Third-Party Sender and the ODFI.

Example: Company A uses an outside entity, Company P, to process payroll files for their employees. Company A sends Company P the payroll information, and Company P creates the ACH files for the payroll transaction. Company P sends the payroll file to an ODFI, Bank P, for processing. **The origination agreement in this case lies between Company P and Bank P** (Company P is the Third-Party Sender and Bank P is the ODFI). Company A and Bank P have no relationship or agreement in place for the processing of the ACH transaction relating to Company A's payroll. Company P is indeed a Third-Party Sender for Company A. **Bank P will be required to register Company P with NACHA as a Third-Party Sender.**

What is the difference between a Third-Party Sender and a Third-Party Service Provider?

It is important to note that a Third-Party Sender **IS** a Third-Party Service Provider (TPSP). A TPSP is defined by EPCOR as "an organization other than an Originator, an ODFI or an RDFI that performs a function of ACH processing on behalf of the Originator, the ODFI of the RDFI."

The difference between a Third-Party Sender and a TPSP is that a relationship exists between the ODFI and the Originator when the Bank is working with a TPSP. No agreement is **required** between a TPSP and the ODFI that ultimately processes the ACH file. The origination agreement in this relationship is required to exist between the ODFI and the Originator (the client of the TPSP).

Example: Company A uses an outside entity, Company P, to process payroll files for their employees. Company A sends Company P the payroll information, and Company P creates the ACH files for the payroll transaction. Company P then sends the ACH file to Company A's ODFI, Bank A, for processing. **The Origination agreement in this case lies between Company A and Bank A.** No agreement is required between Company P and Bank A. Therefore, Company P is acting as a Third-Party Service Provider, not a Third-Party Sender.

How does our bank determine if we have any Third-Party Senders?

Conversation with customers will be critical in identifying Third-Party Senders. Due diligence procedures for Originators should be updated to include questions that would help identify whether or not they are acting as a Third-Party Sender for another entity. Questions such as "Do you create ACH files for other entities as a part of your business?" and "Do you intend to send those ACH files through your account with our bank?," among others, may be helpful in determining whether or not the customer is serving as a Third-Party Sender.

Staff monitoring Originator transaction activity should also keep an eye out for significant changes to outgoing ACH files. An increase in transaction volume could be an indication of new Third-Party Sender activity.



What information will I need to register our Third-Party Senders with NACHA?

- ODFI name
- The name, title telephone number, email address, and street address for a contact person at the ODFI
- The name of the Third-Party Sender and its principal city and state location
- The ODFI identification number(s) used in entries transmitted for the Third-Party Sender (routing and transit number)
- Company identification of the Third-Party Sender (EIN number, customer number, or other number used in the company ID field of the ACH file)
- **Subsection 2.17.3.1, OR39**
- **Be prepared to provide the following additional information, should NACHA request it:**
 - The Third-Party Sender's doing-business-as name (if applicable), TIN, street address, and website address
 - Name, title, telephone number, and email address for a contact person at the Third-Party Sender
 - Name(s) and title(s) of the principal(s) of the Third-Party Sender
 - Approximate number of Originators for which the Third-Party Sender transmits entries
 - A statement as to whether the Third-Party Sender transmits debit entries, credit entries, or both
 - **Subsection 2.17.3.1, OR39-OR40**

What if we don't identify any Third-Party Sender relationships at our bank?

If your bank does not have any relationships that would qualify an Originator as a Third-Party Sender, you would simply register as having NO Third-Party Sender relationships. You still must use the link provided on the NACHA website to register with this information. To complete this registration, you will need the ODFI's name, contact information (name, title, phone number, email address and street address for a contact person at the ODFI), and a statement acknowledging that the ODFI has no Third-Party Senders (**Subsection 2.17.3.2, OR40**).

When does registration for Third-Party Senders begin?

Registration will begin via the NACHA website on September 29, 2017. Registration information is DUE by March 1, 2018.

Registration Requirements After March 1, 2018:

- New Third-Party Sender: must register within 30 days of first ACH entry
- Learned Third-Party Sender: must register within 10 days of learning of their TPS activity
 - Example: You learn after an ACH audit that one of your Originators is serving as a Third-Party Sender based on review of transaction history and ACH files
- Change to/from Third-Party Sender: must update registration information with 45 days of change occurring
 - Example: An Originator ceases all relationships causing them to be labeled as a Third-Party Sender
- **Subsection 2.17.3.1, OR39**



What if our bank doesn't register Third-Party Sender relationships (or lack of qualifying relationships) within the required timeframes?

Failure to register a Third-Party Sender(s) with the National Association, or register as having no Third-Party Sender relationships, will result in a Class 2 Rules Violation, as noted in the 2017 NACHA Operating Rules and Guidelines (**Subpart 10.4.7.4 (5)**). Per the guidelines, "in situations involving a Class 2 Rules Violation, the ACH Rules Enforcement Panel may levy a fine against the respondent Participating DFI in an amount up to **\$100,000 per month** until the problem is resolved." The guidelines go on to say that the fine may be assessed on EACH Third-Party Sender that is not properly registered.

Questions?

Feel free to contact Varney and Associates, CPAs at 785-537-2202 for help in interpreting this rule and how it may apply to your institution.