

SPOTLIGHT ON NACHA

Nacha Operating Rules and Audit Guidelines for Third-Party Senders

A Spotlight on Nacha
Operating Rules, Guidelines,
and Audit Requirements

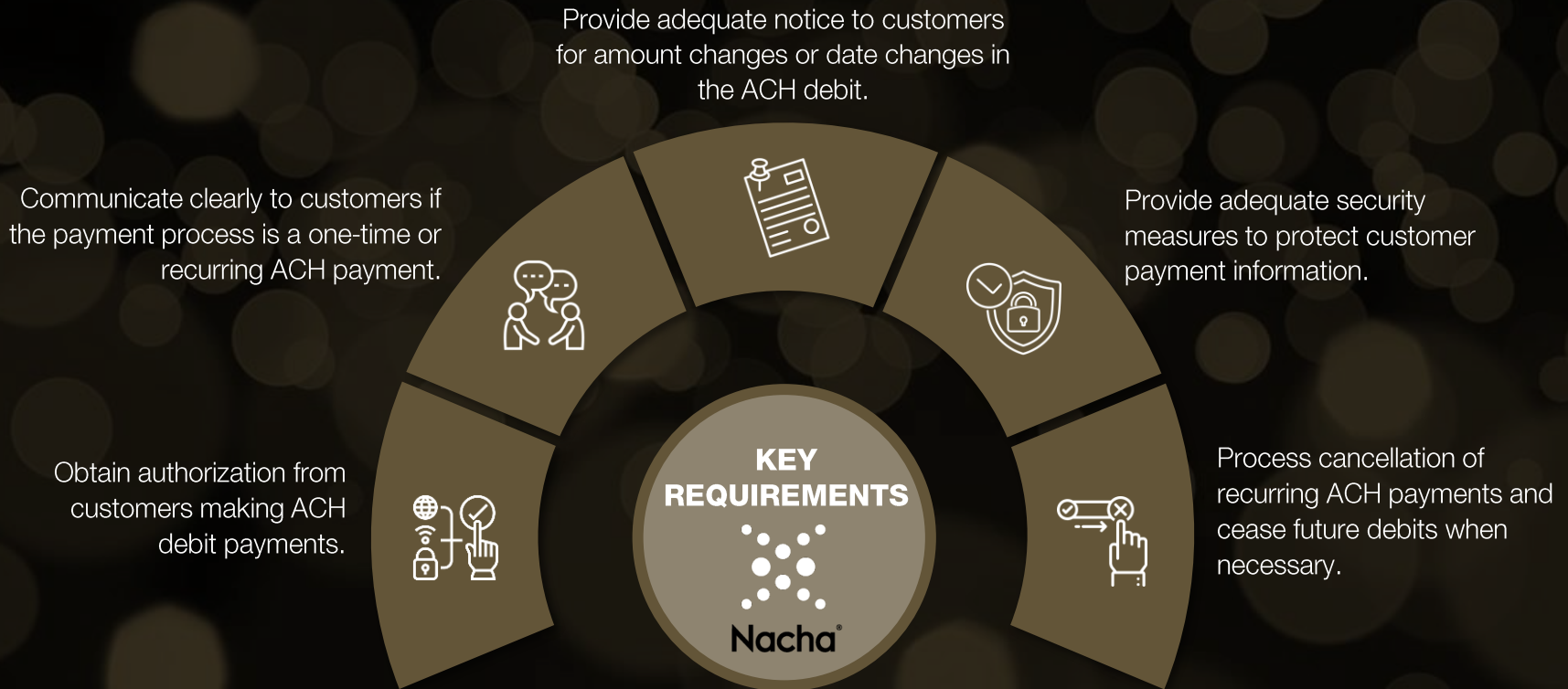


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Understanding Nacha Operating Rules

The Nacha Operating Rules are the fundamental guidelines for every Automated Clearing House (ACH) payment. Certain requirements must be adhered to by a business entity and failure to do so may result in a series of warnings, fines, and suspension from using ACH payments altogether. The primary goal of the operating rules is to always keep a customer's financial and personal data safe, while making sure that payments are sent and received smoothly on time.



Possible Parties in an ACH Entry

ACH is a computer-based electronic network for processing transactions for individuals, businesses, and federal, state, and local governments. ACH is designed to process batches of payments containing numerous transactions and it charges fees low enough to encourage its use for low value payments between financial institutions. The network system is overseen by the National Automated Clearing House Association (Nacha) in the United States.



Nacha Standard Entry Class Codes

Nacha maintains a list of commonly used Standard Entry Class (SEC) Codes, which are 3-letter codes that identify how an individual or entity authorized an ACH transaction. Generally, SEC Codes provide the nature of a transaction whether consumer or corporate, single-entry or recurring, and the specific computer record format that will be utilized to process the payment and any related information.

COMMONLY USED SEC CODES

SEC Code	ACH Application	Debit / Credit	Consumer / Corporate	Application Use
CCD / CCD+	Corporate Credit or Debit	Credit / Debit / Nonmonetary	Corporate to Corporate	ACH credits or debits for corporate accounts are used for vendor payments, cash concentration, payroll, petty cash, and other disbursements. A CCD entry may include a single addenda record for payment-related information.
CIE	Customer Initiated Entries	Credit	Consumer to Corporate	A credit entry initiated by consumer through a bill payment service provider to pay bills.
CTX	Corporate Trade Exchange	Credit / Debit / Nonmonetary	Corporate to Corporate	ACH credits or debits for corporate accounts support up to 9,999 addenda records and are ideal for trading partner relationships, as they can send a full ANSI ASC X12 message or payment-related UN/EDIFACT information with the CTX entry.
IAT	International ACH Transaction	Credit / Debit	Corporate to Consumer/ Corporate to Corporate	An entry involved in a payment transaction with a financial agency's office situated outside the territorial jurisdiction of the U.S.
PPD / PPD+	Pre-arranged Payment or Deposit	Credit / Debit	Corporate to Consumer	An ACH credit or debit sent by an originator to a consumer account to make or collect a payment with written authorization. Only one addenda record can be attached to each payment entry (+ indicates an addenda record).
WEB	Internet-Initiated/Mobile Entries	Credit / Debit Single Entry or Recurring Entry	Corporate to Consumer	Credit WEB Entries involve person-to-person transactions or transfers between accounts of the same person, while Debit WEB Entries are ACH transactions authorized via the internet or a wireless network, excluding telephone calls.



General Audit Requirements for Third-Party Senders

Third-Party Sender (TPS) is defined in the Nacha Operating Rules as a type of Third-Party Service Provider (TPSP) that acts as an intermediary in transmitting entries between an Originator and an Originating Depository Financial Institution (ODFI). The Nacha Operating Rules require a TPS to conduct an annual audit of their ACH compliance by December 31st each year to ensure adherence to Nacha's ACH transaction guidelines.

RECORD RETENTION

Record of each entry is retained for six (6) years from the date the entry was transmitted. Printout must be available, if requested.

PREVIOUS YEAR AUDIT

Verify that participating DFI conducted an audit of its compliance with the Nacha Operating Rules for the previous year.

RISK ASSESSMENT

Participating DFI has conducted an assessment of the risks of its ACH and a risk management program is in place.



ELECTRONIC RECORDS

If retained in electronic form, verify that the form accurately reflects information in the record and can be accurately reproduced for future reference.

ENCRYPTION

A required encryption or a secure session is used for banking information transmitted via unsecured electronic network.

SECURITY OF PROTECTED INFORMATION

There must be an established, implemented, and updated security policies, procedures, and systems.



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Annual Nacha Operating Rules Audit

Understanding your role in an ACH transaction is critical to determining whether you may be subject to performing an annual audit under Nacha's Operating Rules (Rules). In Banking as a Service (BaaS) and For Benefit Of (FBO) operating models, you may be acting as a third-party sender (TPS) under the Rules. Stratis can help you comply with your BaaS or FBO agreement requirements as a TPS to perform your annual Nacha Operating Rules audit by December 31 of the calendar year.

ACH Risk Assessment

Participating in the ACH network requires numerous operational requirements. For companies operating as a TPS, an ACH risk assessment should be conducted to assess various risks such as operational risk, return risk, credit risk, fraud risk, compliance risk, cybersecurity risk, and reputational risk. Moreover, an ACH risk assessment is a factor in determining annual compliance with Nacha's Operating Rules. Stratis can help you evaluate your ACH operations, understand your risks in the ACH network, inclusive of return rates and codes, and document your annual ACH risk assessment to comply with the Rules, but also your BaaS or FBO master's services agreement.



BaaS and FBO Contract Compliance

Operating under a BaaS or FBO master's services agreement with a banking or payment partner usually passes down statutory, industry, and best practice requirements during the agreement term. Namely, compliance with annual anti-money laundering, sanctions, and Nacha Operating Rules audits, executing ongoing vendor management, customer monitoring, and complaints processing, among others. Stratis can help you with developing your core compliance frameworks to implement these programs or execute the annual audits to comply with your BaaS or FBO master's services agreement.





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