

International ACH Transactions (IAT): What is it & How Does It Affect Your Organization?

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January 27, 2009



Agenda

- ◆ What is IAT?
- ◆ Reasons for NACHA Rules Change
- ◆ What is OFAC?
- ◆ IAT Implications and Best Practices
- ◆ IAT Resources

What is IAT?

- ◆ The IAT is a new application, SEC code and format for ACH payments
- ◆ Allows for the identification and facilitation of international ACH transactions

Why are changes needed?

- ◆ Currently foreign items are originated into the U.S. ACH coded as domestic transactions (PPDs and CCDs).
- ◆ OFAC has indicated that due to the speed and efficiency of the ACH Network that is vulnerable to abuse with respect to international cross-border movement of funds.
- ◆ Additional information needed to permit an adequate degree of scrutiny of transactions for OFAC compliance.
- ◆ NACHA began working with OFAC in 2004 on the proposed rule change for international ACH transactions

Changes to International ACH Payments

Primary Purposes:

1. Respond to OFAC's request to align the *Rules* with OFAC compliance obligations,
2. Identify international ACH transactions, and
3. Make it easier for RDFIs to comply with OFAC obligations.



What is OFAC?

Office of Foreign Assets Control (OFAC)

- ◆ Administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against
 - targeted foreign countries
 - terrorists
 - international narcotics traffickers and
 - those engaged in activities related to the proliferation of weapons of mass destruction

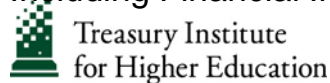
<http://www.ustreas.gov/offices/enforcement/ofac/>

OFAC Jurisdiction

- ◆ U.S. citizens and permanent resident aliens
- ◆ Companies located in the U.S.*
- ◆ Overseas branches of U.S. companies*

For the U.S. ACH Network, this means all participants in any of these categories are subject to Federal Sanctions policies.

* Including Financial Institutions



OFAC Penalties

- ◆ Both criminal and civil
- ◆ Vary by sanctions program
- ◆ Can include:
 - Imprisonment (employee)
 - 10-30 years depending on the program
 - Fines per count (corporate and individuals)
 - \$10,000 - \$10,000,000 per count
 - Forfeiture of property





IAT Transactions

Additional Participants Information

- ◆ Specific data elements as defined in the Bank Secrecy Act's "Travel Rule" have been added to the IAT so that all parties have necessary information to comply with U.S. law:
 - Name and physical address of the originator and beneficiary
 - Originating bank, intermediary (correspondent) bank **and** receiving bank name, identification number and branch country code

Formatting Requirements

- ◆ One SEC code for both corporate and consumer transactions
- ◆ Detail record
- ◆ Seven mandatory addenda records containing the additional information that OFAC has requested
- ◆ Two additional addenda records for remittance data for 160 characters of remittance data
- ◆ Optional fixed-field addenda record to identify foreign correspondent banks
- ◆ Maximum of 12 addenda records per detail record

Definition of International ACH Transactions

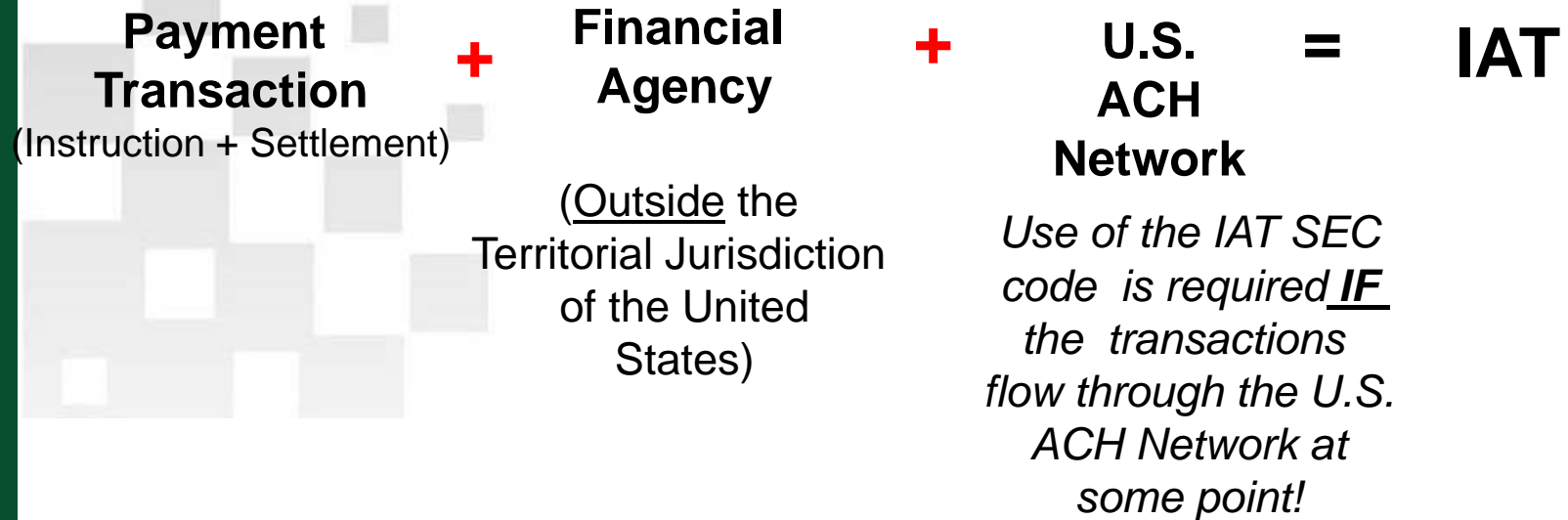
- ◆ **International ACH Transactions** – an ACH entry that is part of a payment transaction involving a financial agency's office that is not located in the territorial jurisdiction of the United States.
 - An office of a financial agency is involved in the payment transaction if it –
 - holds an account that is credited or debited as part of the payment transaction; **or**
 - receives funds directly from a Person or makes payment directly to a Person as part of the payment transaction; **or**
 - serves as an intermediary in the settlement of the payment transaction.
 - Financial agency means an entity that is authorized by applicable law to accept deposits or is in the business of issuing money orders or transferring funds.

Payment Transaction Guidance

Payment transaction

- 1) an **instruction** of a sender to a bank to pay, or to obtain payment of, or to cause another bank to pay or to obtain payment of, a fixed or determinate amount of money that is to be paid to, or obtained from, a receiver, **and**
- 2) **any and all settlements**, accounting entries, or disbursements that are **necessary or appropriate to carry out the instruction.**

IAT =



*Location of the originator and beneficiary is **not** considered in the Identification of an IAT transaction.*

IAT Flow – Inbound Tuition Payment

Inbound IAT Transactions – tuition payment coming into the U.S. from another Country.

Parents in Europe



1. Foreign parents of U.S. college student send payment for college tuition to U.S. college via European bank.



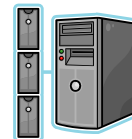
European Bank

2. European bank sends SWIFT message to U.S. correspondent bank to send tuition payment to college via U.S. ACH.

U.S. Bank



3. U.S. bank sends ACH file to ACH operator (IAT file).



4. ACH Operator sends IAT payment to bank for college.

U.S. Bank

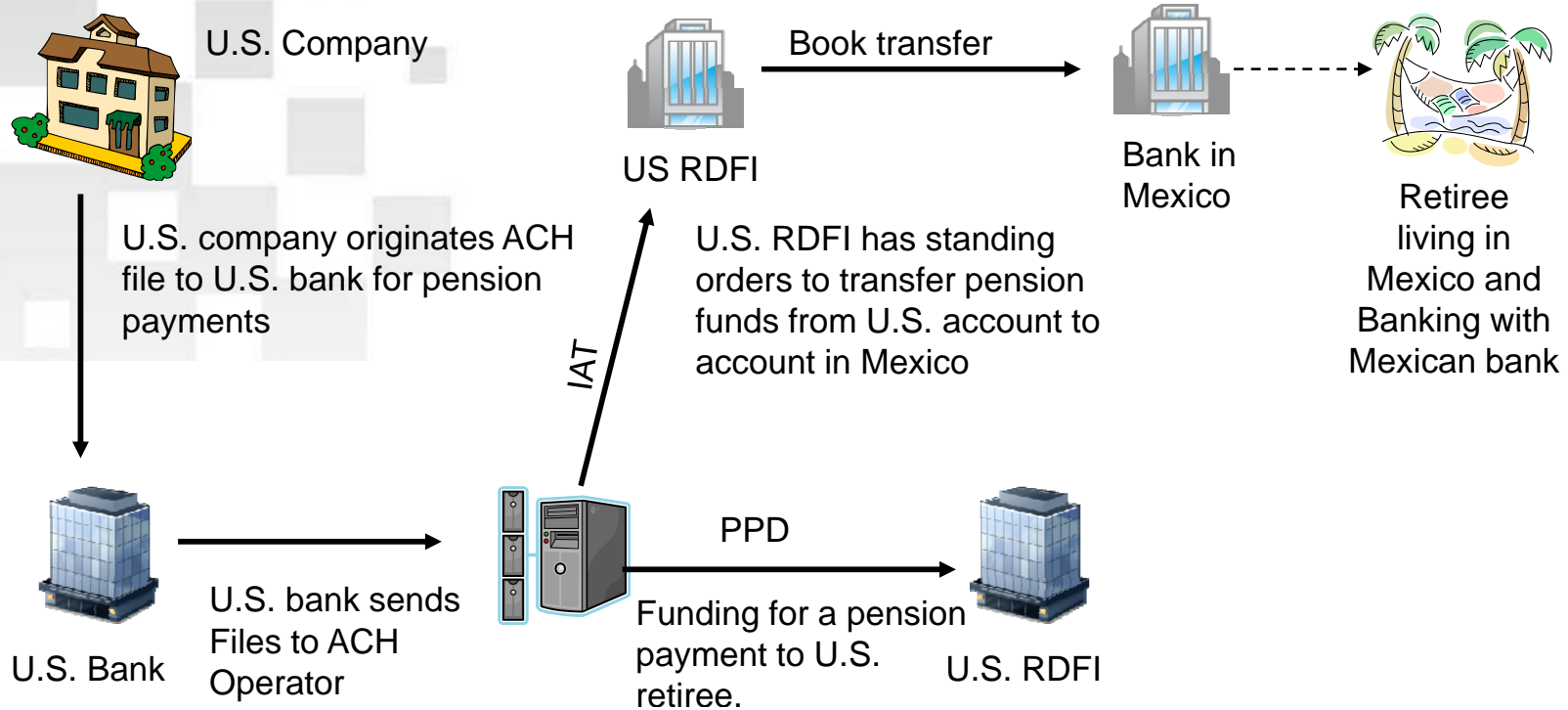


U.S. College

5. Bank receives ACH file and posts payment to college account. Remittance information provided to college.

IAT Transaction Chain

Outbound IAT Transactions – sending pension funds out of the U.S. to a financial institution outside the territorial jurisdiction of the U.S. for a non-resident pensioner



Receiving an Inbound IAT

- ◆ Interesting to note
 - Although receivers do not have an OFAC obligation, the US company should have a policy to review their vendors for OFAC compliance
 - Reports for IATs may be different than prior trade payment received reports
 - BAI transmissions may contain new information
 - Only two records containing 80 characters each are now available for remittance data

OFAC Implications to Corporations

◆ Receivers

- Potential delay in posting of incoming transactions to investigate potential OFAC violations

◆ Originators

- Potential delay in origination of transactions while suspect items are cleared

No time limit for investigation of suspect transactions.

Addition to Article One - General

Exemption from Rules Obligations:

- ◆ A specific provision will be added that excuses a participating DFI from its obligations under the *Rules* to credit or debit an account or to transfer funds when such action would be in conflict with U.S. law.

Best Practices

- ◆ Working with Financial Services Providers
 - Since all financial institutions are required to receive IATs, but originating IATs is optional, ask your banker about products that will be available to you
 - Changes to file formats for origination
 - Discuss file transmission options
 - Is programming necessary?
 - Does the financial institution offer alternative methods for formatting IATs?

Best Practices

- ◆ Working with Financial Services Providers
 - Ask your financial institution about IAT receiving changes:
 - What will new reports look like?
 - How can all the new addenda details be obtained?
 - Do I need to receive all of the addenda details?
 - How will new transmissions be formatted?
 - NACHA formatted received files
 - BAI
 - EDI

Best Practices

- ◆ Working with Financial Services Providers
 - Discuss requirements and options with third parties that originate payments on your behalf, such as:
 - Payroll processors
 - Electronic bill presentment and payment (EBPP) vendors
 - Accounts payable outsourcers

Best Practices

- ◆ Working with Financial Services Providers
 - Testing procedures and availability
 - Are new service agreements required?
 - Are new service codes planned?
 - How will the IAT services be priced?

Best Practices

- ◆ Policies and procedures
 - Develop a firm OFAC policy for all vendors, employees and pensioners:
 - Process for periodic review
 - Statement for explanation in the event a payment is delayed
 - Consider OFAC review on payment orders

Best Practices

◆ Policies and procedures

- Review customers, vendors, employees and all other receivers of ACH payments:
 - If a foreign address is listed, determine how they receive value from the payment
 - Capture the related travel rule details necessary to make the payment
 - Develop a procedure for new employees, vendors and customers for determining if an IAT is necessary

Best Practices

- ◆ Policies and procedures
 - Develop a corporate policy for making payments in the event that all “Travel Rule” details are not available:
 - Check?
 - Paycard?
 - Other

Best Practices

◆ Policies and procedures

▪ CTX trade payments

- Current IAT formats allow for only two fields of 80 characters each
- Send a \$0.00 CTX complete with current addenda
- Send an IAT for the net amount
- Receiver needs to re-associate payment and remittance data

Best Practices

◆ Policies and procedures

▪ Err to the side of conservatism

- If unsure whether an item involves a non-US financial agency, use an IAT
- Potential impact is the extended right of return for commercial debits

IAT Resource Page

http://www.nacha.org/IAT_Industry_Information/

◆ Industry Information

- Operations Bulletin
- Key Messages
- IAT Executive Summary
- FAQ's
- FAQ's – Formatting
- Readiness Checklist
- Scenarios
- Corporate Tool Kit
- OFAC Domestic ACH Policy
- November 2004 OFAC Letter to NACHA
- Inbound IAT Debit Processing Recommendations
- Glossary
- IAT FI Monthly Calls
- IAT Training Calendar

IAT Resource Page

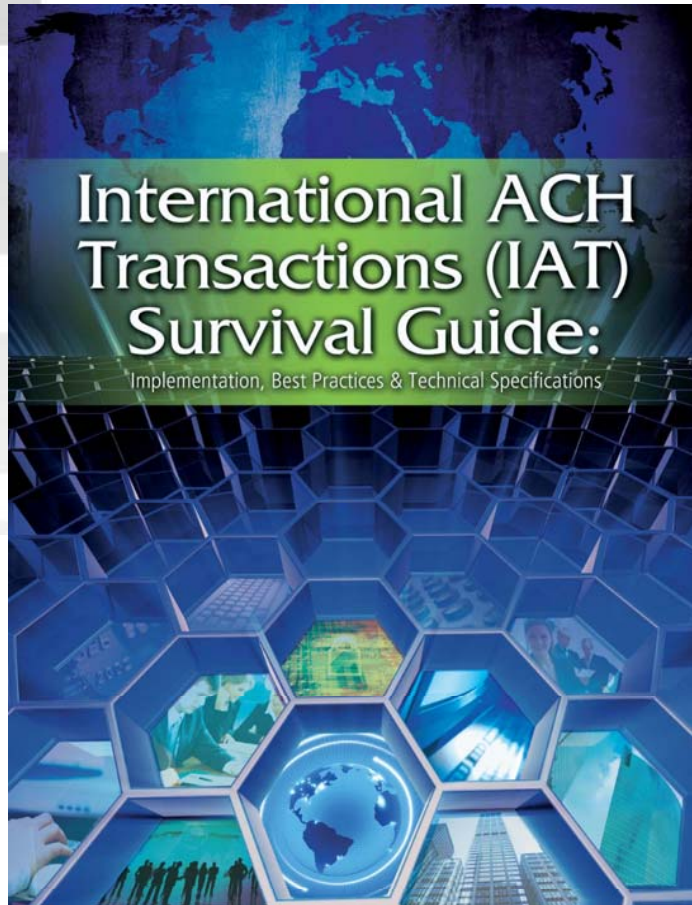
◆ Industry Links

- OFAC
- FedACH IAT Resource Center
- Electronic Payments Network

◆ Presentations

- Best Practices for Implementing IAT
- IAT Equation
- International Payments Primer

IAT Survival Guide



- ◆ Currently available at <http://pubs.nacha.org/risk.html>

New IAT Implementation Date

September 18, 2009



NACHA

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