

International ACH Transactions FAQs

General Questions

- ▶ What is an IAT?
- ▶ Why is a new regulation needed?
- ▶ What will this new regulation do?
- ▶ Does IAT affect all U.S. banks?
- ▶ How does IAT affect my business?
- ▶ What is the “Travel Rule”?
- ▶ When does the IAT regulation start?
- ▶ Are ACH transactions from military bases and embassies considered international or domestic transactions?
- ▶ Is there a difference between consumer and corporate IAT transactions?
- ▶ How do I get started doing IAT origination?

Information Requirements

- ▶ What information is required when originating IAT transactions?
- ▶ What if I don’t know the identity of correspondent banks involved in the transaction?
- ▶ Can I include remittance information with an IAT?
- ▶ How can I find out whether my payments are IATs? Where can I find information to help me determine whether they are IATs?
- ▶ Are outbound international payments through my bank’s proprietary system, not through the U.S. ACH network, considered IATs? Do they require additional information and screening?
- ▶ If my payments are processed offshore, but the payments are made from a bank in the U.S. to accounts in the U.S., are they considered International ACH Transactions?

Screening Responsibilities

- ▶ Who is responsible for screening IATs to identify those that violate OFAC sanctions policies?
- ▶ If my organization originates IATs, must I screen the transactions for OFAC compliance or will my bank do that?
- ▶ If my organization receives IATs, must I screen the transactions for OFAC compliance or will my bank do that?
- ▶ When financial institutions, Gateway Operators, or third-parties screen IATs, how do they identify legitimate vs suspect transactions?
- ▶ There is one IAT code for both consumer and business accounts, but the deadline for returning unauthorized transactions is different for consumers and businesses, according to NACHA rules. Which deadline applies, business or consumer?
- ▶ Additional IAT Resources

- ▶ Glossary of IAT acronyms and terms

General Questions

What is an IAT?

An IAT, or International ACH Transaction, is a credit or debit involving a bank office located outside the United States. It is a new regulation that will create a file structure that will expand the Office of Foreign Assets' (OFAC) definition of "international" to include items currently considered "domestic".

Why is a new regulation needed?

The current process makes it difficult for depository financial institutions to identify domestic transactions that may have international parties involved. They need to know this to comply with U.S. law.

According to the National Automated Clearing House Association (NACHA)¹:

- Cross-border applications are currently used only for ACH transactions transmitted internationally
- These international payments are introduced into the U.S. ACH network through domestic correspondent banking relationships
- As a result, they are being transmitted as domestic transactions

¹ Full text can be found in the "NACHA IAT Executive Summary" on NACHA.com

What will this new regulation do?

It will classify IATs based on where the financial agency that handles the payment transaction is located (not where the transaction originator or receiver is located). Therefore, transactions that are currently sent as domestic, but are actually international transactions, will be sent as IATs. Also, the new regulation will align ACH rules with OFAC compliance obligations. It also helps receiving financial institutions comply with these obligations.

Does IAT affect all U.S. banks?

Yes, it involves every financial institution in the U.S., plus any foreign organization sending payments into or receiving payments from the U.S. Additionally, IAT does not change a financial institution's domestic OFAC compliance requirements.

How does IAT affect my business?

- All parties to the ACH transaction must classify payments transmitted to or received from a financial agency outside the U.S. as IATs
- You may need to upgrade your processing applications and gather the data necessary to travel with the transactions, as required by the Bank Secrecy Act.

What is the "Travel Rule"?

The Bank Secrecy Act's "Travel Rule" requires the originating depository financial institution (the originators' bank) to include the originator's and beneficiary's name, address, and account number. The Travel Rule detail must accompany transactions.

When does the IAT regulation start?

IATs take effect September 18, 2009. It is the most significant change to the U.S. ACH network in recent history.

Are ACH transactions from military bases and embassies considered international or domestic transactions?

ACH transactions from military bases, embassies, and other facilities within U.S. jurisdiction are considered domestic and will not require the use of IAT.

Is there a difference between consumer and corporate IAT transactions?

There is only one SEC code for IATs. It will be used for both consumer and business transactions. The current consumer protections under Reg E apply to all transactions.

► To
Index

► To
Index

► To
Index

How do I get started doing IAT origination?

- Financial institutions can contact NACHA, the Federal Reserve, or a major U.S. bank that offers this service for correspondent banks
- Businesses should contact their financial institutions to determine if the service is being offered and to work with the relationship officer to determine the service enrollment procedures

Information Requirements

What information is required when originating IAT transactions?

The information that must be included in an IAT is the same as the information you provide in an international wire transfer. There are several mandatory addenda records with an IAT. The field requirements are consistent with SWIFT standards, and must contain:

- Name and physical address of the originator
- Name and physical address of the receiver (beneficiary)
- Account number of the receiver
- Identity of the receiver's bank
- Correspondent bank's name, Bank ID number and Bank Branch Country Code
- Reason for the payment

What if I don't know the identity of correspondent banks involved in the transaction?

Each correspondent bank involved in an IAT must identify itself within an addenda record. A separate addenda record will be added to the payment by each correspondent bank, for a maximum of five correspondent bank addenda records.

Can I include remittance information with an IAT?

Yes, two optional addenda records accommodate the transmission of remittance information. A maximum of 160 characters (80 characters per addenda record) can be included.

How can I find out whether my payments are IATs? Where can I find information to help me determine whether they are IATs?

NACHA worked with several global banks to develop scenarios describing various payments situations and how these payments would be classified. OFAC agreed to the interpretations contained in those scenarios. The scenarios can be found on the IAT Resource Page at www.nacha.org. One scenario deals with pension payments. Other scenarios deal with vendor and payroll payments.

Are outbound international payments through my bank's proprietary system, not through the U.S. ACH network, considered IATs? Do they require additional information and screening?

If your organization's outbound international payments are not sent through the U.S. ACH network, the IAT format is not required. However, your bank is still responsible for screening the transactions and complying with OFAC sanctions. In addition, as an originator you are also subject to OFAC requirements and should be screening your transactions, regardless of whether they are going through the U.S. ACH network or through bank proprietary systems.

If my payments are processed offshore, but the payments are made from a bank in the U.S. to accounts in the U.S., are they considered International ACH Transactions?

These payments are not classified as IATs. The IAT definition does not apply to transactions involving data received or processed offshore if 1) the processing entity is not a party to the transaction, and 2) the processing does not alter the terms of the transaction, and 3) the offshore party has no direct financial stake in the transaction through an account relationship or settlement obligation.

► To
Index

► To
Index

► To
Index

Screening Responsibilities

Who is responsible for screening IATs to identify those that violate OFAC sanctions policies?

All parties to IATs have a role in screening for OFAC compliance: financial institutions, originators and the Gateway Operator. Each party must develop an OFAC compliance policy. Financial institutions bear the liability if OFAC sanctions are violated, but they can seek recourse against their originators.

If my organization originates IATs, must I screen the transactions for OFAC compliance or will my bank do that?

If your organization originates IATs, you should know your trading partner and screen for OFAC compliance. Speak with your financial institution about its preparations for implementing, testing and screening IAT transactions. Ask about any changes to your ACH agreement.

If my organization receives IATs, must I screen the transactions for OFAC compliance or will my bank do that?

As a receiver of IATs, you do not have to screen the transactions. But you should “know your customer.” If the receiving financial institution screens and flags the transaction for an OFAC violation, the funds will be frozen and you will not receive the payment you are owed.

When financial institutions, Gateway Operators, or third-parties screen IATs, how do they identify legitimate vs suspect transactions?

Two optional screening indicator fields are included in the record of an IAT transaction entering the U.S., where the results of voluntary OFAC screening by a Gateway Operator, correspondent bank, or third-party service provider can be reported. The value of “0” will indicate that a potential blocked party has not been identified. A value of “1” will indicate a potential blocked party. These screening indicators will help receiving financial institutions in further processing.

There is one IAT code for both consumer and business accounts, but the deadline for returning unauthorized transactions is different for consumers and businesses, according to NACHA rules. Which deadline applies, business or consumer?

For an IAT, the longer time frame for returning unauthorized consumer transactions will also apply to business accounts. Specifically, the return of an unauthorized incoming IAT entry must be transmitted by the RDFI so that the return is made available to the ODFI no later than the opening of business on the banking day following the 60th calendar date following the settlement date of the original entry.

Additional IAT Resources

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

Federal Reserve: http://www.frbervices.org/help/fedach_iat.html#top

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

► To
Index

► To
Index

► To
Index

Glossary of IAT acronyms and terms

Acronyms

▶ To Index

AML/BSA – Anti-Money Laundering/Bank Secrecy Act
BIC – Bank Identification Code
BIS – Bank for International Settlement
BSA – Bank Secrecy Act of 1970
CBR – Corporate Cross-Border Payment
CHIPS – Clearing House Interbank Payments System
FATF – Financial Action Task Force
FinCen – Financial Crimes Enforcement Network
FGO – Foreign Gateway Operator
FX – Foreign Exchange
GO – Gateway Operator
IAT – International ACH Transaction
IBAN – International Bank Account Number
ISO – International Standards Organization
KYC – Know Your Customer
NOC – Notification of Change
ODFI – Originating Depository Financial Institution
OECD – Organization for Economic Co-operations and Development
OFAC – Office of Foreign Assets Control
PBR – Consumer Cross-Border Payment
PE-ACH – Pan European ACH
PPD – Prearranged Payment and Deposit Entry
RDFI – Receiving Depository Financial Institution
RTGS – Real Time Gross Settlement
SDN – Specially Designated National (FTO: Foreign Terrorist Organization or SDNT: Specially-Designated Narcotics Traffickers)
▶ To Index
SEC Code – Standard Entry Class Code
SEPA – Single Euro Payments Area
STP – Straight Through Processing
SWIFT – Society for Worldwide Interbank Financial Telecommunication
UN/CEFACT – United Nations Centre for Trade Facilitation and Electronic Business
UNIFI – Universal Financial Industry
USA PATRIOT ACT – Uniting and Strengthening America by Providing Appropriate Tools to Intercept and Obstruct Terrorism Act of 2001
XML – eXtensible Mark-up Language

Definitions

APACS – Manages the main clearing networks which allow UK banks and building societies to exchange payments.

BACS Payments Schemes Ltd – The scheme manager for the UK ACH payments system.

Bank Identification Code (BIC) – All SWIFT members have an address, known as BIC codes which are the SWIFT members' international clearing codes. The bank BIC codes are made up of specific characters: 1-4 company name, 5-6 country, 7-8 city/town, and 9-11 (optional) department code. (e.g. JPMorgan Chase = CHASGB2L).

▶ To Index
Bank Secrecy Act of 1970 (BSA) – The Currency and Foreign Transactions Reporting Act, also known as the Bank Secrecy Act (BSA) was enacted by congress to prevent banks and other financial service providers from being used as intermediaries for, or to hide the transfer or deposit of money derived from, criminal activities.

Clearing House Interbank Payments System (CHIPS) – An independent bank-owned payments system for clearing large value payments. CHIPS is a real-time, final payments system for U.S. dollars that uses bi-lateral and multi-lateral netting for maximum liquidity efficiency.

► To
Index

Continuous Linked Settlement (CLS) – A means of settling foreign exchange transactions finally and irrevocably. CLS eliminates settlement risk, improves liquidity management, reduces operational banking costs and improves operational efficiency and effectiveness.

Correspondent Banking – An arrangement under which one bank provides payment and other services to another bank. Payments through correspondents are often executed through reciprocal accounts (so-called nostro and vostro accounts), to which standing credit lines may be attached. Correspondent banking services are primarily provided across international boundaries but are also known as agency relationships in domestic context. A vostro account is the term used by a correspondent to describe an account held on behalf of a foreign bank; the foreign bank would in turn regard this account as its nostro account.

Cover Payment – In the serial method of funds transfer, there is a single funds transfer consisting of a series of payment orders, each of which is sent to the next party in the chain. A receiving bank gets paid by its sender when: it receives final settlement through a funds-transfer system like CHIPS or Fedwire, it debits an account of the sender on its books, it receives a credit to an account it has with the sender, or the sender causes the receiving bank's account at another bank to be credited (i.e., the receiving bank gets *cover*).

Cross Border Settlement – A settlement that takes place in a country other than the country in which one trade counter party or both are located.

Direct Clearer – a financial institution, usually a bank, that directly clears checks or other payment instruments with other institutions in the domestic payment systems.

Financial Action Task Force (FATF) – An international, intergovernmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF is therefore a "policy-making body" created in 1989 that works to generate the necessary political will to bring about legislative and regulatory reforms in these areas. The FATF has published 40 + 9 Recommendations in order to meet this objective.

► To
Index

FinCEN – Financial Crimes Enforcement Network (FinCEN) is a network, a means of bringing people and information together to fight the complex problem of money laundering. Created in 1990, FinCEN has worked to maximize information sharing among law enforcement agencies and its other partners in the regulatory and financial communities. Through cooperation and partnerships, FinCEN's network approach encourages cost-effective and efficient measures to combat money laundering domestically and internationally.

Foreign Exchange Market (FOREX) – The foreign exchange market itself consists of a worldwide network of interbank traders connected by telephone lines and computers. The FOREX market has two tiers, 1) the Interbank Market (Wholesale) for international banks, traders, brokers, and central banks, and 2) the Client Market (Retail). FX traders "create market" by quoting a two way bid/ask market price. They stand ready to buy or sell currency at the quoted rate. Like in other financial markets this price implies a spread, which favors the dealer. There are also FX brokers who match buy/sell orders but do not carry inventory.

Foreign Exchange Rate – The relative value between two currencies. In particular, it is the quantity of one currency required to buy or sell a unit of the other currency.

► To
Index

Foreign Exchange Settlement Risk – The risk that one party to a foreign exchange transaction will pay the currency it sold but not received the currency it bought. This is also called cross-currency settlement risk or principal risk.

Foreign Exchange Quote – An exchange rate quote is given by stating the amount of price currency (numerator) that can be bought in terms of 1 unit currency (denominator). For example, in 1.2USD/EUR, the USD is the price currency and the EUR the unit currency.

Foreign Gateway Operator – A Gateway Operator that acts as an entry point to or exit point from a foreign country.

Funds transfer – The series of transactions, beginning with the *originator's* payment order, made for the purpose of making payment to the beneficiary, including any payment order issued by the *originator's bank* or an *intermediary bank*. A funds transfer is completed by the *acceptance* of a payment order for the benefit of the beneficiary by the beneficiary's bank.

Gateway Operator – Either an ACH Operator or a Participating Depository Financial Institutions, as defined by the ACH Operating Rules that acts as an entry point to or exit point from the United States for ACH payment transactions.

International ACH Payment (IAT) – A debit or credit 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. For the purposes of this definition, a 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. An office of a financial agency is involved in the payment transaction if it 1) holds an account that is credited or debited as part of the payment transactions, 2) receives payment directly from a person or makes payment directly to a person as part of the payment transaction, or 3) serves as an intermediary in the settlement of any part of the payment transaction. IAT entries must be originated using the IAT Standard Entry Class Code.

International Bank Account Number (IBAN) – a combination of the country code and 26 character account number. The IBAN is mandatory for payment with the SEPA.

ISO 20022 – UNiversal Financial Industry (UNIFI) message scheme with a single methodology (neutral business modeling + XML syntax + reverse engineering), a single financial repository (dictionary + catalogue) and a single development process.

International Payments – a payment where the ultimate originator or ultimate beneficiary is located in another country.

Irrevocable – Incapable of being returned or revoked.

Know Your Customer (KYC) – a guideline stated or implied by various securities regulatory bodies which requires that brokers determine the suitability of investments for customers before making recommendations.

Organization for Economic Co-operations and Development (OECD) – The OECD brings together the governments of countries committed to democracy and the market economy from around the world to support sustainable economic growth, boost employment, raise living standards, maintain financial stability, assist other countries' economic development, and contribute to growth in world trade.

Office of Foreign Assets Control (OFAC) – A part of the US Department of the Treasury, OFAC administers and enforces economic and trade sanctions based on US 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. OFAC acts under Presidential wartime and national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze foreign assets under US jurisdiction.

Real Time Gross Settlement (RTGS) – Gross settlement system in which both processing and settlement is taking place in real time (continuously) without netting against credits on a fully covered basis with payment finality.

SEC code – A three-letter code that uniquely identifies the class of ACH transaction.

► To
Index

► To
Index

► To
Index

Single Euro Payments Area (SEPA) – The area where citizens, companies and other economic actors are able to make and receive payments in euros, within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.

Society for Worldwide Interbank Financial Telecommunication (SWIFT) – The financial industry-owned co-operative supplying secure standardized messaging services and interface software to 8,100 financial institutions in more than 208 countries. SWIFT's worldwide community includes banks, broker/dealers and investment managers, as well as their market infrastructures in payments, securities, treasury and trade.

Travel Rule – Bank Secrecy Act's (BSA) "Travel Rule" is part of 31 C.F.R. 103.33(g). The Travel Rule requires that the financial institution of the originator of the wire transfer or other transaction to include the name, physical address and account number of the originator, the name of the originating financial institution, the amount and execution date of the transaction along with the name, physical address and account number of the beneficiary and the beneficiaries financial institution.

VocaLink – The payment processing provider for ACH and other services in the United Kingdom.

Vostro Account – A correspondent bank account that a financial institution holds on behalf of an overseas correspondent.

► To
Index

► To
Index

► To
Index