

RDFIs Preparing for International ACH Transactions (IATs) Effective September 18, 2009

Presented by: **Michelle L. Palmer, AAP**
VP, Business Development & Consulting



Agenda

- New International ACH Transaction (IAT) Rule and Regulation requirements
- BSA travel rule and OFAC compliance
- Exception Handling
- How to start preparing today
- Questions and Additional Resources

What are International ACH Transactions (IATs)?

- International credit and debit payment instructions exchanged across national borders to transfer value between an Originator (sender) and a Receiver (beneficiary).
- NACHA Rules will require every ACH payment entering or exiting the United States to be identified and formatted as an IAT.

New Regulatory Requirements for ACH

- Effective September 18, 2009
- Requires ODFIs and Gateway Operators to identify all international ACH transaction as such
 - Use the new SEC code of IAT
 - Include specific data elements defined with BSA “travel rule”
- Ensure all parties have information necessary to comply with U.S. law, including OFAC compliance
- Addition to Article One – General NACHA rules

Today vs. New Rule

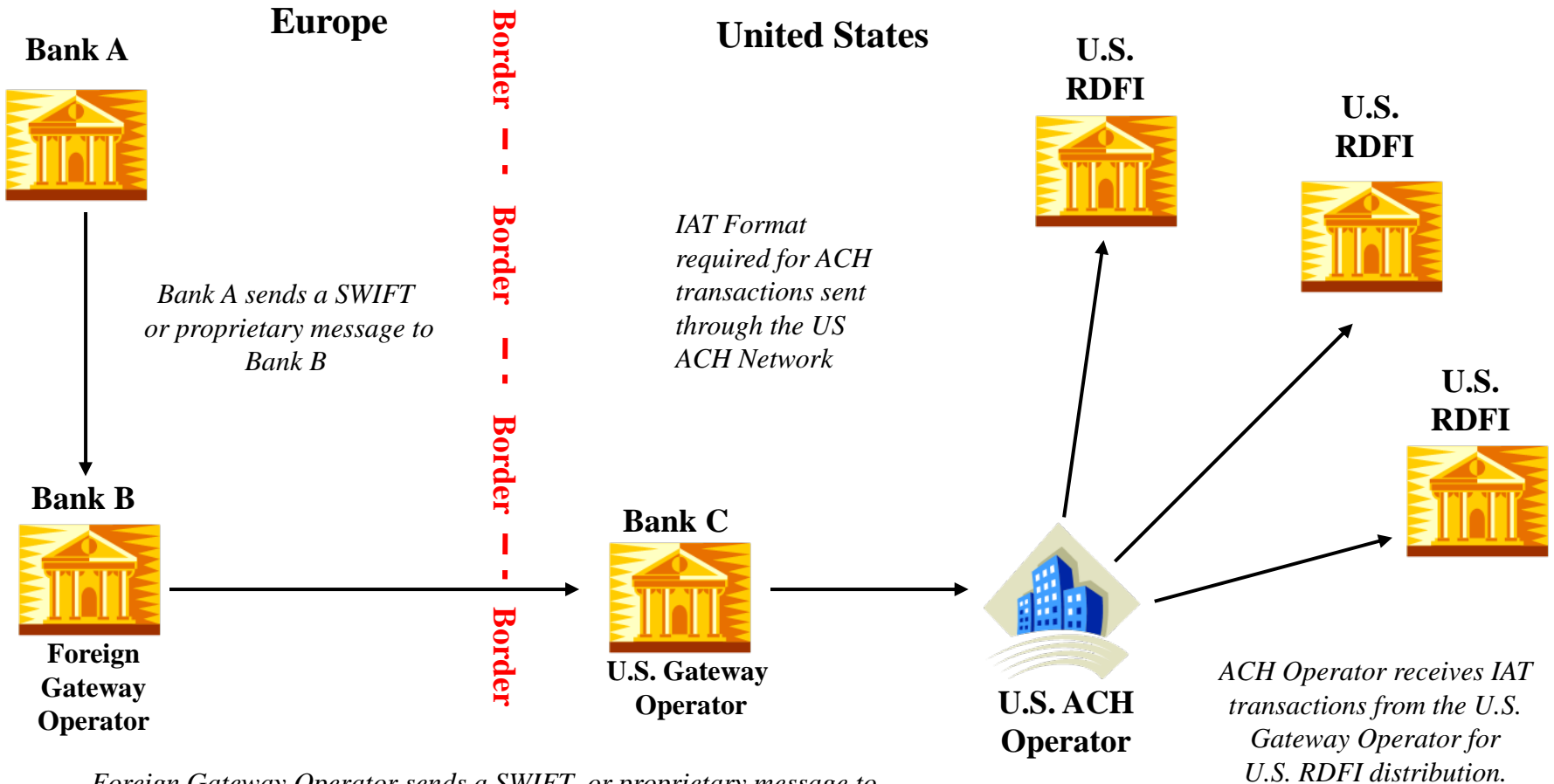
Today

- Cross-border payments (CBR and PBR)
- Credit entries only (Canada and Mexico)
- One (1) mandatory addenda record
- Only consumer (PBR) can be returned as “unauthorized” within 60 days of the original settlement date
- Majority of international payments sent today as PPD or CCD

New Rule

- New SEC code “IAT” for both consumer and corporate entries
- Debit and credit entries
- Seven (7) mandatory addenda records
- Both consumer and corporate can be returned as “unauthorized” within 60 days of the original settlement date
- Returns have to include seven (7) mandatory addenda records
- OFAC compliance of all parties
- Allow delay in posting entry to members account for OFAC investigation

Inbound IAT Process Flow



Foreign Gateway Operator sends a SWIFT or proprietary message to U.S. Gateway Operator. The message is translated to the IATACH format for U.S. RDFI distribution.

Primary Purposes of IATs

- Respond to OFAC's request to align the NACHA Rules with OFAC compliance obligations
- Make it easier for Receiving Depository Financial Institutions (RDFIs) to comply with those obligations
- Provide the ability to identify all international payments

Classification of IATs

- The new rule will classify International ACH Transactions by focusing on where the financial agency that handles the movement of funds is located and not where any other party to the transaction (e.g., the Originator or Receiver) is located.
 - Certain transactions that are currently sent as PPDs or CCDs, but are actually international transactions, will be originated in the ACH network as IATs.

*IAT Survival Guide

Did you know.....

- All receiving depository financial institutions (RDFIs) will be affected by this rule.
- RDFIs will be required to accept IATs.
- Every IAT and all parties associated with these transactions must comply with BSA travel rules and OFAC screening requirements **PRIOR** to posting to your member's account.
- FIs can contract with other third-party providers to do OFAC review of these transactions, but cannot contract away their liabilities related to OFAC compliance.

Did you know.....

- NACHA rules apply to an IAT entry only while in the United States.
 - If originating outbound IATs, return timeframes will vary for each foreign country
- IAT entries will have a completely new format.
- Data Processing systems will have to pull periodic statement information from a new position within the ACH detail file.
- For corporate receivers of IAT, any remittance information received in the remittance addenda must be provided to the Receiver within two business days, if it is requested.

BSA “Travel Rule” Information

- “Travel Rule” is required on each IAT, regardless of the dollar amount, and includes seven (7) mandatory Addenda Records
 - Name and physical address of Originator
 - Name and physical address of the Receiver
 - Account number of Receiver
 - Receiving FI and identification number
 - Foreign Correspondent Bank(s) name, Bank ID and Bank Branch Country Code
 - Amount
 - Reason for payment

- **BSA “Travel Rule” Information**

Bank Secrecy Act (BSA) rule [31 CFR 103.33(g)]

http://www.fincen.gov/news_room/rp/advisory/html/advissu7.html

File Format of Addenda Records

- Detailed information can be found in your 2009 NACHA Rules Book as well as the IAT Survival Guide under “Mapping”
 - **Addenda One** – Transaction type code (ANN, BUS, DEP, PEN), payment amount and Receiver Name
 - **Addenda Two & Three** – Originator Name, Address, Country Code
 - **Addenda Four** – ODFI Name, ID# and Branch Country Code
 - **Addenda Five** – RDFI Name, ID# and Branch Country Code
 - **Addenda Six & Seven** – Receiver Acct #, Address, Country Code

OFAC Screening Indicators

- A Gateway Operator is an ACH Operator or ODFI that acts as an entry or exit point to or from the United States.
- The Federal Reserve, acting as a Gateway Operator, intends to screen incoming IATs for OFAC compliance.
 - Field Ten (10) of the ACH detail will include Gateway Operator OFAC screening indicator.
 - “o” , “1” , or “blank”

OFAC Penalties

- Both Criminal and Civil
- Vary by sanction's 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

OFAC Compliance for IAT

- All FIs are responsible for OFAC compliance
- Must have written OFAC policies and procedures
- Review all parties of an IAT entry including remittance data and foreign bank correspondent
- Review all parties of a return IAT entry
- Take appropriate steps to investigate, suspend, reject, block, and report on transactions as necessary

OFAC Compliance for IAT

- For a suspect transaction confirmed as an OFAC hit
 - For an R01, R02, R03, R04, R12 R16
 - Return debit with return timeframes
 - Contact OFAC
 - Contact Gateway Operator

OFAC Reporting

- Any transaction that has been blocked or rejected must be reported to OFAC within ten business days from the date the property has been blocked
- Annual report of all transactions blocked as of June 30 each year is due to OFAC by September 30
- Retain reports for five years

OFAC Policy

- Items should be covered in OFAC Policy
 - Who is responsible for OFAC compliance in the organization
 - How the organization maintains an up-to-date listing prohibited countries, organizations and individuals
 - How specific transactions are handled (i.e. debits, credits)
 - What information is checked against the SDN list
 - How to handle OFAC review of on-us transactions
 - How to comply with OFAC reporting procedures
 - Record Retention
 - OFAC Compliance Audit

Exception From Rules Obligations

- Article One – General
 - Section 1.2
 - Subsection 1.2.5 Effect of Illegality
 - *Any action by a Participating DFI to debit or credit an account or to transfer funds that is required by these rules is excused to extent that such action is inconsistent with U.S. law, including the obligations of the DFI under programs administered by the Office of Foreign Assets Control (OFAC) and the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN).*
 - Example: This would excuse an RDFI from its obligation to recredit a Receiver for an unauthorized debit entry under the *Rules* when such action is prohibited by OFAC.

Returns

- Use domestic ACH timeframes and reason codes
 - NOTE: Both consumer and corporate transactions can be returned as “unauthorized” within 60 days for the original settlement date. (WSUPP required)
- Develop new procedures for handling IAT returns
 - Requires seven (7) mandatory addenda records from the original transaction to be included with the return.
- Dishonored Returns and Contested Dishonored Returns are not supported with IAT
 - Procedures should be developed to handle outside the ACH Network.

Notification of Change (NOC)

- NOCs are allowed with IAT entries
- Remember, the ACH rules only apply while the transaction is in the U. S.
- Other countries do not use NOCs, and they are not bound by ACH rules

Statement Information....

- Information required for member statements may be contained in different fields than domestic ACH transaction
 - Company Name
 - Company Description
 - ARC, BOC, POP, RCK – serial number
 - POP – city and state identifier
 - POS, MTE, SHR – terminal location information

Start preparing today.....

- Review/Update your written OFAC compliance policy and procedures
- Review downstream applications for ability to accept the new format and processing requirements
 - Consider all systems that may be impacted...
 - DDA
 - Reporting systems
 - Statements
 - Online Banking
- Educate staff
 - OFAC compliance obligations
 - Handling of IAT entries, including Returns and NOCs

Start preparing today.....

- Review and/or Update depository agreement and Fee schedules
 - Include a similar statement that acknowledges that Receivers of ACH transactions should be aware that their FI may, from time-to-time, need to temporarily suspend processing of a transaction for greater scrutiny or verification against the SDN List and that it may affect settlement and/or availability.
 - RDFIs may consider reviewing fee schedule to ensure they are adequately compensated for the additional work.

Start preparing today.....

- Send data processor readiness letter
 - Sample letter located at www.volcorp.org
- Test with data processing system
 - Determine how to identify IAT entries in ACH detail file
 - Determine if addenda is stripped from ACH entry upon receipt
 - Delivery of additional data carried in the ACH records to your members
 - Test information is populated appropriately on member statement
 - Ensure all allowable characters can be recognized and processed since IATs may contain foreign language characters (OR45)

How can VolCorp help?

- VolCorp created an IAT committee for the purpose of educating our members about how the new IAT requirements will affect them. The goals of this committee include:
 - Monthly articles in *VolVoice*
 - Coming Soon: IAT section on VolCorp homepage
 - IAT preparation guide
 - Checklist for data processors
 - Training classes
 - Help with resources to complete your ACH OFAC policies
 - Testing for RDFIs

VolCorp's IAT Committee

VolCorp: 615-232-7900 or toll-free 800-470-3444

Cassie Hendry – Chair, Ext. 282

Karen Clabough – Co-Chair, Ext. 274

Jenifer Wade, Ext. 247

Justin Holt, Ext. 283

Kim Schott, Ext. 233

Lea Joy, Ext. 251

Michelle Palmer, Ext. 277

Sherry Alers, Ext. 290

Susan Wilkerson, Ext. 229

Veronica Hambrick, Ext. 287



Additional Resources.....

- 2009 ACH Rule Book
- IAT Survival Guide

www.volcorp.org

www.tacha.org

www.nacha.org

Additional OFAC information

Sample OFAC Policy & Procedure Manual:

http://www.patriottechcorp.com/resources_compliance.asp

OFAC Homepage:

<http://www.treas.gov/offices/enforcement/ofac/index.shtml>

OFAC SDN List:

<http://www.treas.gov/offices/enforcement/ofac/sdn/index.shtml>

OFAC FAQs:

<http://www.treas.gov/offices/enforcement/ofac/faq/index.shtml>

FedACH International ACH Transaction (IAT) Resource Center

http://www.frbservices.org/eventseducation/education/fedach_iat_resource_center.html

http://www.frbservices.org/eventseducation/education/iat_originating_institution.html

Questions?



Contact Information

- VolCorp: 615-232-7900 or toll-free 800-470-3444
- Michelle Palmer, VP Business Development & Consulting, ext. 277

Email: mpalmer@volcorp.org

OR

IAT@volcorp.org