

IAT Scenarios Simplified

Several abbreviated scenarios are provided below to better understand when a specific payment transaction involving the U.S. ACH Network would be deemed an International ACH Transaction (IAT) or a domestic ACH transaction. Full text of the scenarios can be found on the NACHA Web site at http://www.nacha.org/IAT_Industry_Information/ in the document titled *IAT Payment Scenarios: Domestic or International*. The scenarios were developed by NACHA in conjunction with several global banks. The IAT or domestic determination has been confirmed by OFAC.

While the scenarios described below represent an assessment of situations that are likely, they are not all-inclusive as to the types of transactions and situations that might give rise to a determination of an IAT or a domestic ACH transaction.

Definition of International ACH Transaction

An International ACH Transaction as 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.

Specifically, an office of a financial agency is involved in the payment transaction if any one or more of the following transaction conditions is met:

- holds an account that is credited or debited as part of a payment transaction; or
- receives funds directly from a Person or makes payment directly to a Person as part of a payment transaction; or
- serves as an intermediary in the settlement of any part of a 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.

The definition of International ACH Transaction focuses on where the financial institution that handles the payment transaction (movement of the funds) is located and not where any other party to the transaction (e.g., the Originator or Receiver) is located.

Payment Transaction Guidance

A Payment Transaction is:

- 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

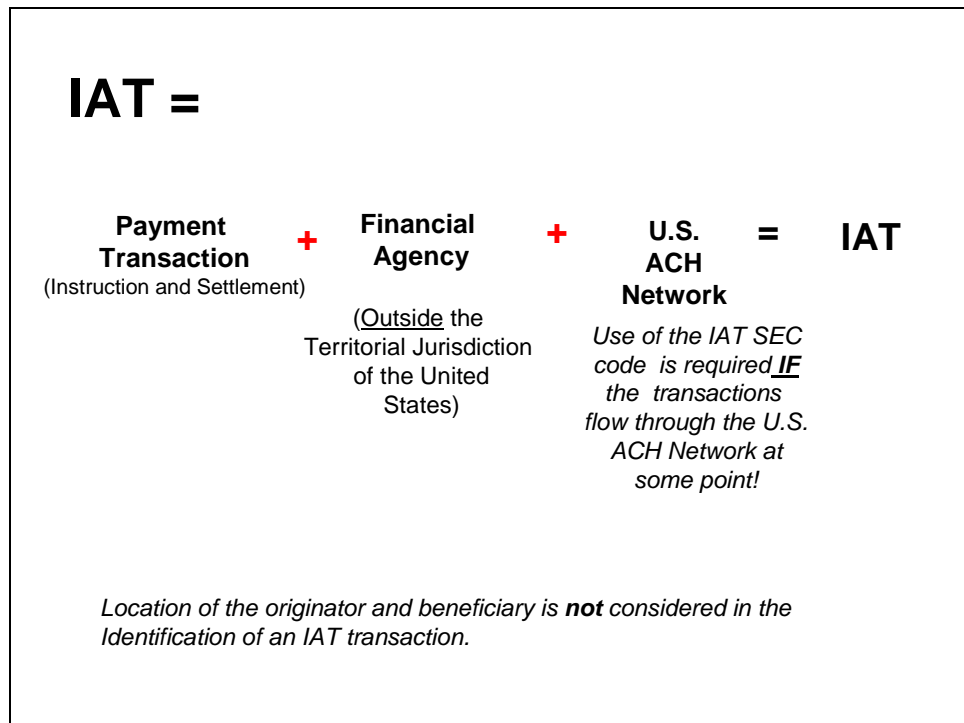
- any and all settlements, accounting entries, or disbursements that are necessary or appropriate to carry out the instruction.

Where the file is created is not relevant to whether a transaction should be formatted as an IAT. For example, if the payment instructions come from a third-party processor such as a payroll provider and the explicit funding for the file is received from a financial agency outside the territorial jurisdiction of the United States, the file would be required to be formatted as an IAT transaction.

How to Determine if an ACH Transaction Should Be an IAT

There are three things to consider when determining if an ACH transaction should be formatted as an IAT transaction:

- **Payment Transaction** – a payment instruction to create ACH transactions (or a file already created) plus explicit funding for the ACH file. The funding and data do not necessarily have to be included in the same file.
- **Financial Agency** – Funding for the transaction is transmitted to or received from a Financial Agency located outside the territorial jurisdiction of the United States. (The territorial jurisdiction of the United States includes all 50 states, U.S. territories, U.S. military bases and U.S. embassies in foreign countries).
- **U.S. ACH Network** – Any part of the transaction is processed through the U.S. ACH Network.



IAT Scenarios

Scenario A – U.S. Domiciled Company/Standard Direct Deposit

- U.S. domiciled company
- No direct funding for the payroll from outside the territorial jurisdiction of the United States
- ACH file information created by or for the U.S. company and sent to their U.S. bank
- All employees' ACH deposits are being sent to banks within the territorial jurisdiction of the United States.

Domestic transactions, formatted as PPD transactions

Scenario B - U.S. Subsidiary of a Offshore Multinational Corporation

- U.S. domiciled company
- No direct funding for the payroll from parent company. The funding is for general operating activities of the company and not for a specific ACH file. [Funding can be from U.S. company activities or received as part of a regular funding of the company activities by the parent on a daily, weekly, monthly basis for all check, wire transfer, card or ACH activity.]
- ACH file – may or may not have been originated by parent company
- All employees' ACH deposits are being sent to banks within the territorial jurisdiction of the United States.

Domestic transactions, formatted as PPD transactions

Scenario C - U.S. Subsidiary of a Offshore Multinational Corporation

- U.S. domiciled company
- No direct funding for the payroll from parent company. The funding is for general operating activities of the company and not for a specific ACH file. [Funding can be from U.S. company activities or received as part of a regular funding of the company activities by the parent on a daily, weekly, monthly basis for all check, wire transfer, card or ACH activity.]
- ACH file – sent via SWIFT message from a European bank
- All employees' ACH deposits are being sent to banks within the territorial jurisdiction of the United States

Domestic transactions, formatted as PPD transactions even though the ACH payment instructions were sent via SWIFT message through a foreign financial agency, there were no funds sent into the country

Scenario C Alternative 1 and 2 - U.S. Subsidiary of an Offshore Multinational Corporation

- U.S. domiciled company
- Direct funding for the payroll file from the parent company through a foreign financial agency outside the territorial jurisdiction of the United States.
- Payroll information, whether in SWIFT message, ACH file format, or proprietary format tied to the specific funding is sent to the companies U.S. bank.
- All employees' ACH deposits are being sent to banks within the territorial jurisdiction of the United States through the ACH Network.

International transactions, formatted as IAT transactions

Scenario D – Vendor Payments

- Vendor payments would follow the logic associated with Scenarios A, B, & C listed above

Scenario E – ACH Debits for Payments to Foreign Receivers

- A foreign bank (Originating Bank) allows non-bank customers to originate payments to consumers in their country
- A person (Originator) in the U.S. logs on to the foreign bank site and originates a payment to a relative (Receiver) in that country, providing the bank with their routing and transit number (ABA number) and account number at their U.S. bank along with the routing, account number and physical address of the Receiver in the foreign country
- The foreign Originating Bank sends a SWIFT message to their U.S. correspondent bank with instructions to send an ACH debit to the Originators account at their U.S. bank along with the name and physical address of the Receiver in the foreign country
- The U.S. bank processes the debit to the U.S. Originators bank and credits the correspondent account at their bank for the foreign Originating Bank
- The foreign Originating Bank sends a credit payment to the Receiver's account at the bank in their country

The debit to the Originator's account in the U.S. would be an IAT transaction because the funds are moving out of the U.S. to a foreign financial agency

Scenario F – Pension Payments

- A U.S. domiciled company makes pension payments to retirees residing outside the territorial jurisdiction of the United States (expatriates) using Direct Deposit.
- For some of the expatriates, the company has instructions to send the funds through the ACH Network to a Gateway Operator, with further instructions to send to a financial agency in a foreign country.

- For the balance of the expatriates, when the Direct Deposit is being sent to domestic U.S. financial institutions consider the following questions:

Are the funds staying in the U.S. financial institution?	Should be PPD transaction
Or are there standing instructions to send the pension payment through various means to a foreign financial agency?	Should be IAT transaction
Are the funds co-mingled with other funds, like Social Security, and then sent to another country?	Should be PPD transaction

Scenario G – ACH Credit Payments (with Remittance Data) to Foreign Receivers

- A foreign bank offers a service in the United States to send credit payments to companies or individuals in its country of domicile
- The credit payments and remittance data are sent to the foreign bank’s U.S. correspondent via the ACH Network
- At the end of the daily processing cycle, the U.S. correspondent credits the foreign bank’s correspondent account with the funds consolidated during the day and sends an EDI file with the individual entry detail and remittance information
- The foreign correspondent bank debits the U.S. correspondent bank’s account on their books and sends the credit and the remittance information to the receiving company

The credit transactions going to the U.S. correspondent bank would be IAT transactions. The U.S. correspondent bank should instruct their correspondent to ensure that they format the transactions using the IAT SEC code.

Scenario H – Money Transmitters

- A money transmitter company receives a payment order from a customer (Originator) in a foreign branch office to send money via the ACH to a Receiver in the United States
- The money transmitter transfers the money via book entry to its U.S. branch office and originates the payment to the Receiver in the U.S. via the ACH Network

The credit transaction to the U.S. Receiver would be an IAT entry