



## International ACH Transactions (IAT) Frequently Asked Questions

### GENERAL:

- 1. Why were the NACHA Operating Rules related to International Payments changed?** Changes to the ACH formats and rules for cross-border payments were made in response to the request of the Office of Foreign Assets Control (OFAC) and the Financial Action Task Force (FATF) Special Recommendation VII.
- 2. How is my organization going to be affected?** All ODFIs and RDFIs that originate and/or receive ACH transactions will be affected by the IAT rule change.
  - All financial institutions that **receive** ACH transactions (**RDFIs**) will need to establish a written OFAC compliance policy for the handling of IAT transactions and meeting OFAC compliance obligations.
  - Financial institutions that **originate** ACH transactions (**ODFIs**) will need to educate their staff on the implications of the IAT changes, educate their Originators on the obligations for Originators with the IAT rule changes, determine if they have Originators that are currently originating ACH transactions that meet the definition of the IAT, and establish a written OFAC compliance policy.
- 3. How do I know if I should use IAT?** Understand the IAT definition, communicate with your customer on the destination of the transactions, and understand your customer's business.
- 4. Are ACH Transactions from Military Bases or Embassies international or domestic transactions?** Military Bases, Embassies, etc. are considered under U.S. jurisdiction so the transactions are considered domestic and will not require the use of IAT.
- 5. What other rules and regulations pertain to IATs? (e.g. Reg E, UCC4A, OFAC, etc.)** IAT does not change other regulations and rules that pertain to ACH transactions today. For example, RDFIs have Reg E obligations for consumer accounts regardless of where the entry originates
- 6. Are there consumer protections for IAT similar to PPD?** Yes, the U.S. consumer protections applied to the PPD and all consumer ACH applications apply to all transactions using the IAT SEC code. Parties outside of the U.S. are bound by laws of that country.
- 7. Can you differentiate between consumer and corporate IAT transactions?** There is only one SEC code for International ACH Transactions and it is to be used for

consumer and corporate transactions. The current consumer protections under Regulation E apply to all transactions.

8. **What is a Foreign Correspondent Bank?** A Foreign Correspondent Bank is a Participating DFI in a foreign country that holds deposits owned by other financial institutions and provides payment and other services to those financial institutions.
9. **What is a Gateway Operator?** A Gateway Operator can be either an ACH Operator or a Participating Depository Financial Institution, as defined by the *NACHA Operating Rules*, that acts as an entry point to or exit point from the United States for ACH payment transactions.
10. **How do I become a Gateway Operator?** The term Gateway Operator is a defined term in the *NACHA Operating Rules*. To become a Gateway Operator a financial institution or ACH Operator must originate ACH entries into or out of the U.S. to other countries. The decision to become a Gateway Operator is a business decision that should be considered by senior management. Some things to consider are establishment of a correspondent relationship in the receiving country; understanding the rules of the receiving country, formatting issues, settlement procedures and a thorough understanding of the risk associated with this business model.
11. **In the definition of IAT it says a Person, what if it is an organization?** In the *NACHA Operating Rules*, "Person" is defined as a natural person or organization.
12. **Does NACHA require Travel Rule information for all IAT transactions or only for those that exceed \$3,000?** While BSA only requires Travel Rule information when a funds transfer exceeds \$3,000, the ACH Rules require this information for all IAT entries.

### **ORIGINATION:**

13. **How do I get started doing IAT origination?** A financial institution can contact the Federal Reserve to participate in their FedACH International service or a major U.S. bank that is offering this service for correspondent banks. Corporate originators need to talk to their financial institutions to determine if the service is being offered and work with the relationship officer to determine the service enrollment procedures.
14. **Does the ODFI need an agreement with the Gateway Operator to send IATs?**  
Yes, an ODFI should have an agreement with a Gateway Operator to originate IATs.
15. **Can I send a CBR/PBR entry on September 18, 2009?** No, on that date you will need to use the IAT for forward entries. If an ACH Operator receives a CBR/PBR entry on September 18, 2009 the entry will be rejected. The CBR/PBR SEC Code will be supported for returns or NOCs for those entries until December 31, 2009.

16. **Can you map the Transaction Type Codes to similar codes used in other payment systems?** The Transaction Type Codes are generic enough they should easily translate to other payment and messaging systems.
17. **Wire transfers don't require a physical address, why does IAT?** OFAC requested that ACH transactions include a physical address in the entry.
18. **Are there any transaction codes that IAT should not be used for?** IAT entries may be sent to demand, savings, general ledger, and loan accounts for live entries, pre-notes and returns. Zero dollar IAT entries may be sent to demand and savings accounts, but should not be sent to general ledger or loan accounts.
19. **Can an IAT pre-note be initiated?** Yes. An IAT pre-notification entry must include the seven mandatory addenda records and be screened for OFAC compliance. While the use of the pre-note is supported with the IAT, please be aware that the concept of pre-notes is not supported in most countries around the world and in most cases you will not receive a response to your pre-note.
20. **How does the ODFI know the return timeframes for the foreign country?** The ODFI should work with their Gateway Operator to understand the rules and requirements of the foreign country they are working with.
21. **Can an IAT be reversed?** Yes, but the reversal would be handled on a best effort basis. The receiving country may not support reversals.
22. **When will the ACH Operators start allowing test files to be sent?** The Federal Reserve will begin testing in third quarter 2008, please contact the Federal Reserve to arrange testing. EPN will offer testing, please contact EPN directly for more information.
- Federal Reserve:**  
[http://www.frb.services.org/eventseducation/education/fedach\\_iat\\_resource\\_center.html](http://www.frb.services.org/eventseducation/education/fedach_iat_resource_center.html)
- EPN OFAC Training/Information Contact:**  
Dayna Hinds ([dayna.hinds@epaynetwork.com](mailto:dayna.hinds@epaynetwork.com)) 336-769-5324
23. **Which party handles the foreign exchange on an IAT transaction?** That decision will be made by the parties to the transaction and is not within the scope of the IAT changes or the NACHA Operating Rules.

### **RECEIPT/EXCEPTION PROCESSING & RETURNS:**

24. **Could any U.S. RDFI receive an IAT credit or debit?** Yes, any U.S. RDFI could receive an IAT.

25. **Does the RDFI need an agreement with a Gateway Operator to receive IATs?** No, the RDFI does not need an agreement with a Gateway Operator for IAT.
26. **Can the RDFI refuse to accept IAT entries?** No, the IAT is not an optional SEC code.
27. **Can the RDFI charge to accept IAT entries?** There is nothing in the ACH Rules to prevent the RDFI from charging to receive and process IAT entries.
28. **How will the RDFI identify an international transaction that comes in with an SEC Code other than IAT?** An RDFI can only recognize international transactions if properly coded as IAT.
29. **Is IAT the only SEC Code that requires this level of review?** Yes, IAT is the only SEC that requires the entry detail records and addenda records to be reviewed.
30. **How big does an FI need to be to need to purchase interdiction software?** FIs should follow commercially reasonable practices and determine how their peer group is complying with the requirement to review entries.
31. **Is it better to screen the IAT before or after the entry posts?** The RDFI should screen all IAT transactions prior to posting. If there is a suspect item in the file the item must be reviewed and cleared prior to the posting of the suspect item.
32. **What is a false positive?** This is an entry that appears to be a positive SDN hit but after investigation it is determined that the party is not the party on the SDN list.
33. **If the RDFI receives an IAT with a positive OFAC screening indicator, can the entry just be returned?** No, the entry must be properly handled in accordance with OFAC requirements.
34. **Are stop pays allowed with IAT?** Yes, there is no change in the ACH Rules regarding processing of stop payments.
35. **Can the RDFI return these transactions?** The IAT can be returned for specific reasons outlined in the ACH Rules, but it cannot be returned or rejected solely because the RDFI does not want to process IAT entries.
36. **What if the Receiver claims the entry is not authorized?** While an RDFI may not reject an entry solely because it is an IAT, an RDFI may follow proper procedures to return an IAT if their customer claims it is unauthorized and the entry does not contain a positive SDN hit.
37. **What if the research takes longer than the return time frame but the RDFI needs to return the entry?** The changes to Article One of the NACHA Operating Rules allows the RDFI time to investigate a potential OFAC violation.

38. **Are there specific Return Reason Codes for IAT?** The Return Reason Codes in the R80 series are for use only by Gateway Operators.
39. **Are there any Return Reason Codes you can't use for IAT?** There are no return reason codes that are blocked from use with IAT, but the Dishonored Return and Contested Dishonored return codes are not allowed for use with IAT entries.
40. **The IAT could be either consumer or corporate, which return time frame is applicable for unauthorized entries?** The RDFI may use the consumer return time frame for an unauthorized IAT entry.
41. **Could the conversion amount change in the return?** For an item originated in the U.S. and sent to another country, if the item is returned the amount of the transaction may be different than the amount of the original entry.
42. **Can I request a copy of the IAT authorization?** Yes, but the authorization requirements will vary by originating country as will the response time and the timeframe requirement as with domestic transactions does not apply.
43. **What are the return timeframes for incoming IAT entries?** The return timeframes have not changed for IAT processing under the *NACHA Operating Rules*.
44. **What are the return timeframes for outgoing IAT entries?** The return timeframe for outgoing IAT entries is determined by the receiving country and will vary by country.
45. **Can I dishonor a returned IAT?** No, automated dishonored returns are not supported with the IAT SEC code. Any request for dishonor (or contested dishonor) must be handled outside of the Network.
46. **Can I do an IAT Notification of Change?** This function is supported with the *NACHA Operating Rules*, but check with your correspondent banks to see if they support the process.
47. **Is the IATCOR code mandatory for IAT NOCs?** Yes, this code is necessary to identify IAT Notifications of Change. Please refer to the most recent version of the *NACHA Operating Rules* for available change codes and formatting requirements
48. **How long will returns and NOCs for CBR/PBR entries be supported?** Until December 31, 2009.
49. **If I return an IAT transaction, could I receive a dishonored return?** No, automated dishonored returns are not supported through the ACH Network. Any request for dishonor (or contested dishonor) must be handled outside of the Network.

50. **Are there any new statementing requirements for IAT entries?** An RDFI has Regulation E statementing requirements regardless of where an entry originates. If an IAT entry has an underlying SEC Code identified in the Transaction Type Code Field, the RDFI should provide the contents of the Payment-Related Information field on the Receiver's bank statement.
51. **Am I required to provide any IAT remittance information to my customers?** Remittance information will be required upon the request of your customer and must be provided by the opening of business on the 2<sup>nd</sup> banking day following settlement.
52. **Will all the information in the 7 mandatory addenda have to go on the customer's statement?** No, the only information from the addenda records that needs to be provided on the customer's statement is located in the Payment-Related Information Field of the addenda record for remittance information. This information needs to be provided when certain secondary SEC codes are included in the Transaction Type Code field of the first addenda record.
53. **How do I know if the IAT is actually an ARC (or other application)? Do I need to perform any special handling?** If a secondary SEC code is included in the Transaction Type Code field of the first addenda record, it may indicate that the IAT is an international variation of a domestic ACH application. If it is, the contents of the Payment-Related Information Field of the addenda record for remittance information must be provided to the consumer customer.
54. **Does the IAT require any new statement or disclosure language?** While the IAT does not require new statement or disclosure language, the RDFI may need to pull information for the statement from a new location in the ACH entry (see questions above).

#### **OFAC COMPLIANCE AND RULES ENFORCEMENT:**

55. **Are these transactions subject to the National System of Fines?** Yes, but only the U.S. entities are subject to the National System of Fines.
56. **Will financial institutions from other countries be able to be fined under the National System of Fines?** No, the National System of Fines applies only to U.S. financial institutions.
57. **Are there additional warranties and liabilities with IAT entries? If so, what are they?** There are additional warranties and liabilities involved with IAT transactions for the Gateway Operators, but they are the same as those that applied to CBR/PBR entries.
58. **What is OFAC?** The Office of Foreign Assets Control of the US Department of the Treasury 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.

59. **Can I contract away my OFAC liabilities?** No, you can make a business decision to outsource your OFAC screening requirements but you CANNOT contract away your liabilities.
60. **What does SDN stand for and what is it?** As part of its enforcement efforts, OFAC publishes a list of individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries. It also lists individuals, groups, and entities, such as terrorists and narcotics traffickers designated under programs that are not country-specific. Collectively, such individuals and companies are called "Specially Designated Nationals" or "SDNs." Their assets are blocked and U.S. persons are generally prohibited from dealing with them.
61. **How do I know who is on the SDN list? How often should I update my list?** This link to the OFAC website will allow FIs to sign up to receive the SDN list and updates.  
<http://www.treas.gov/offices/enforcement/ofac/sdn/index.shtml>
62. **If the Fed is going to OFAC screen, do I have to also?** Yes, the OFAC Screening Indicator is a tool to help alert the RDFI to a possible OFAC hit, but the RDFI must still screen the entry and is responsible for investigation of any possible hits.
63. **Will the Operator block all IATs from countries we aren't allowed to do business with?** No, the ACH Operators will do no OFAC review of the IAT transactions. The Gateway Operators may review the transactions, populate the OFAC Screening Indicators and pass the items to the RDFI for review and investigation.
64. **Which parties must screen for OFAC compliance?** The Gateway Operator, the Originator, the ODFI and the RDFI all must screen all IAT transactions for OFAC compliance.
65. **What are the penalties for OFAC non-compliance?** There are civil and criminal penalties that vary by OFAC sanctions programs.
66. **What do I do if I get an IAT with a screening indicator of "1"?** You should follow the OFAC Compliance Policy guidelines that your financial institution has established.
67. **If I receive a transaction with a screening indicator of "0" does it require further review?** That is a business decision of your organization; it is strongly recommended

that your organization examine ALL incoming IAT transactions for OFAC compliance. While a FI may contract with other organizations to complete the actual screening of the transactions, OFAC is very clear that an organization may not contract away their OFAC liability.

**68. What OFAC screening services will be provided by the ACH Operators?** At this time, the Federal Reserve acting as a Gateway Operator will screen any IAT transactions that are processed as part of their FedACH International service, but will not be screening IAT transactions as an ACH Operator. EPN will be offering a value-added service to their customers for origination and receiving IAT transactions. EPN will not be screening all IAT transactions that flow through their system as an ACH Operator.

**69. What are the contact numbers or website for OFAC?**

**OFAC Homepage:**

[www.treas.gov/ofac](http://www.treas.gov/ofac)

**OFAC SDN List:**

<http://www.treas.gov/ofac/t11sdn.pdf>

**Recent SDN Changes:**

<http://www.treas.gov/ofac/t11sdnew.pdf>

**Downloadable SDN List:**

<http://www.treas.gov/ofac/t11sdall.exe>

**OFAC FAQs:**

<http://www.ustreas.gov/offices/enforcement/ofac/faq/answer.shtml#24>