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For more information visit www.nacha.org/IAT_Industry_Information/

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Why the IAT Will Affect You

What EVERY Financial Institution Needs to Know about the New IAT SEC Code

On September 18, 2009, the fundamental definition of what constitutes an international ACH payment will change with the implementation of the new International ACH Transaction (IAT) SEC code. If you think IAT won't affect your bank or credit union because you have never received a PBR or CBR transaction or because you currently don't originate international ACH transactions, think again. The new definition of IAT was added to the *NACHA Operating Rules* to identify international transactions flowing through the ACH Network that contain insufficient information in the record to identify them as international in origin or receipt.

Consider the following scenarios:

- How many of your bank or credit union customers shop on eBay? Do any of them purchase merchandise from other countries? How about the mother of three who buys replacement pieces for her china from a retailer in England and uses her PayPal account to fund the transaction. After September 18, 2009, the ACH debit transaction from PayPal to fund the purchase of china from a retailer in England would be an IAT transaction.
- Do you have consumers who use a debit card? If those consumers use their debit cards to purchase souvenirs while traveling abroad, the POS debits that you receive today will be IATs after September 18, 2009.
- How many of your financial institution's consumers work for multi-national companies or businesses owned by a foreign company? If the funding for Direct Deposit of payroll originates from the parent company in another country, your consumers could receive their Direct Deposit as an IAT transaction.
- Do any of your customers order products over the telephone from telemarketers that could be in Canada? If during one of those

calls, a customer purchases a magazine subscription, the debit to his or her account would be a TEL transaction. After September 18, 2009, that same transaction would fall under the new IAT SEC code with TEL in the Transaction Type Code field.

- Is your bank or credit union located in a state on the border of Canada or Mexico? Do you have consumers who work in other countries? Do they receive Direct Deposit from their employer? If you answer "yes" to any of these questions, you had better be prepared. All of these transactions could fall under the new IAT SEC code.

Regardless of whether your bank or credit union currently originates IAT transactions, your organization must prepare for the implementation of IAT. Has your vendor told you not to worry—they are taking care of the technical details for you? That's great news, but have you checked your downstream applications? Is your vendor handling those details, too? If your vendor is doing the OFAC review to identify suspect transactions, do you have procedures in place to complete the investigation, contact OFAC, and freeze the funds?

The implementation of the new IAT SEC code will require not only compliance with the *NACHA Operating Rules* but also with OFAC. OFAC expects banks and credit unions to perform a full review of all parties to the transactions, the remittance information, and financial institutions involved in the transactions to identify potential parties in violation of an OFAC sanctions policy. In addition, banks and credit unions must do a full wire transfer type of investigation of subject parties before contacting OFAC. They will not do the review for you.

If you've not yet started your IAT implementation project plans, you're behind. For additional information or training on the IAT requirements, contact your Regional Payments Association, NACHA, or visit the IAT resource page on the NACHA Web site at http://www.nacha.org/IAT_Industry_Information/.

IAT Scenarios Simplified

The scenarios documents have been created as a tool 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. All of the abbreviated scenarios and accompanying full text scenarios documents can be found on the NACHA Web site at http://www.nacha.org/IAT_Industry_Information/. The scenarios were developed by NACHA in conjunction with several global banks. The IAT or domestic determination has been confirmed by OFAC.

Scenario C Alternative 1 - 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 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 on 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

IAT Corporate Tool Kit

The following is a list of some of the white label materials that were developed to help financial institutions educate their corporate originators on the IAT rule change. These materials can be found on the IAT Resource Web site at http://www.nacha.org/IAT_Industry_Information/

- IAT Executive Summary for Corporate Practitioners Web page
- IAT Payment Scenarios Simplified
- IAT FAQs for Corporate Practitioners
- Is My Transaction an IAT? (PowerPoint decision tree)
- IAT Readiness Checklist for Corporate Practitioners
- Corporate Newsletter Article
- Listing of the IAT Specific Data Elements

Financial Institution IAT Implementation Calls

NACHA holds regular conference calls with financial institutions to answer questions on IAT implementation. No presentations are provided on the calls. NACHA staff provides answers to questions submitted by the financial institutions prior to the call, or if time permits, received during the call. It is requested that questions be submitted to iatquestions@nacha.org at least 24 hours prior to the calls. Those questions received prior to the call are consolidated and posted on the IAT Resource Web page the morning of the calls. Following the call, the questions and answers are posted by call date on the same Web page. All of the previous call questions and answers are available along with the dates for the upcoming calls. If you are interested in participating in the calls, please dial 866-516-8598 and enter the PIN – 0564873# at the prompt. Only questions submitted by financial institutions will be addressed on these calls.

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Questions To Ask Your Vendors

Financial institutions should be working with their vendors to implement the IAT. Below is a list of some of the questions you should ask your vendors.

1. When can you provide specific information on the timeline for providing IAT?
2. When can you provide specific information on testing?
3. What functionality will be available on September 18, 2009? Full? Partial? Receipt only?
4. Will the ACH software provide user friendly screens and format the file for NACHA standards?
5. Will many of the fields have drop down choices to select from?
6. How will the OFAC review integrate into our current process? Will any manual review be required?
7. How will the ACH software identify and handle OFAC hits?
8. Will the software screen both forward and return entries?
9. Will the remittance information in the addenda record be reviewed?
10. Can we archive activity logs to prove OFAC compliance?
11. What kind of support will you provide if we have problems with your product?

IAT for Corporate Practitioners

1. *What is an IAT?*

The International ACH Transaction (IAT) is a new Standard Entry Class code for ACH payments to identify international transactions. International transactions are those payments that have been funded internationally or are being sent to another country and a part of the transaction will be processed via the ACH Network.

2. *Why was the IAT developed?*

The IAT was developed in response to a request from the Office of Foreign Asset Control (OFAC). In its letters to NACHA, OFAC stated that it thought that the ACH Network is vulnerable to abuse due to the speed and efficiency of the Network. OFAC understands that there are currently transactions flowing through the Network that are funded by international sources. These transactions cannot currently be identified within the Network and are formatted as domestic transactions. OFAC has requested that NACHA modify the NACHA Operating Rules to adequately identify international transactions and have the banks review the international transactions for OFAC compliance.

3. *As a Corporate Originator, does OFAC impact me?*

Yes, U.S. corporations are also required to comply with OFAC obligations, and the penalties for ignoring those obligations can be both criminal and civil and include both jail time and fines ranging from \$10,000 to \$10,000,000 per occurrence. If these fines are levied against the financial institution they may be passed back to the corporate originator depending on the specifics of the case and the details of their contract with the financial institution. The fines are levied by the U.S. government and funds collected are the property of the government, not the financial institution. Additional information on OFAC obligations and fines can be found at <http://www.treas.gov/offices/enforcement/ofac/>.

4. *How do I know if the IAT applies to my ACH transactions?*

If you answered yes to any of the following questions, please contact your financial institution about the impact of the IAT to your company.

- Is your company a subsidiary of a multi-national company?
- Does your company have foreign subsidiaries?
- Does your company buy or sell to organizations or individuals outside the territorial jurisdiction of the United States?

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IAT Sessions at PAYMENTS 2009

- IAT: Understanding the Business Implications & Opportunities, April 6, 8:00 a.m. in Crystal G2
- Managing IAT From an Operational Perspective, April 6, 11:15 a.m. in Crystal J2
- Corporate Readiness for IAT – A Roadmap for Success, April 6, 4:30 p.m. in Boston/Anaheim/Atlanta
- Sombreros, Berets & Top Hats: IAT & Who Wears Which, April 6, 4:30 p.m. in Crystal G1
- Got IAT? Build a Cross-Border ACH Program for Your Customers, April 7, 1:45 p.m. in Crystal G2
- You've Got an Extension on the IAT Requirements – But Are you Ready? April 7, 3:15 p.m. in Crystal J2
- A Canadian Originator's Perspective on IAT, April 7, 3:15 p.m. in Crystal G2

If you missed any of these sessions, you can still purchase a CD Rom of the proceedings by visiting www.nacha.org.

IAT Education and Training


Information on all IAT training and educational sessions from NACHA, the Regional Payments Associations, and the ACH Operators are listed on the IAT Resource Page. Upcoming events include:



Teleseminars

- Understanding IAT Roles and Responsibilities, March 24, 2009
- How to Talk to Your Customers about IAT, April 22, 2009
- IAT and OFAC Compliance, May 12, 2009

If you missed any of the IAT teleseminars in 2008 or 2009, CDs are available for purchase by calling Conference Archives at 866-316-3289.

 Printed on recycled paper

IAT Video Conferencing Series

A series of 4 training videos including:

- Introduction to IAT
- IAT Processing Procedures for Financial Institutions
- Best Practices in Preparing for IAT Implementation
- Introduction to OFAC

Visit http://www.nacha.org/IAT_Industry_Information/videoconference.html to order.

The Payments Institute

- June 14-18, 2009 – Scottsdale, Arizona
- July 19-23, 2009 – Atlanta, Georgia



More information can be found at:

http://www.nacha.org/conferences/TPI_2009/default.htm

IAT Publications

International ACH Transactions (IAT) Survival Guide: Implementation, Best Practices and Technical Specifications

IAT Quick Reference Cards

For more information on these and other publications, visit <http://pubs.nacha.org/>

Be sure to visit http://www.nacha.org/IAT_Industry_Information/ for the latest on all things IAT!

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