

# International ACH IAT and the Corporate Practitioner

*Priscilla C. Holland, AAP, CCM*

NACHA, The Electronic Payments Association

*Mark K. Webster, CPA, CCM, Partner*

Treasury Alliance Group LLC



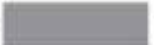
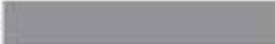

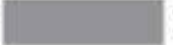
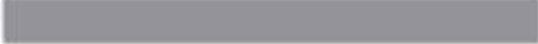


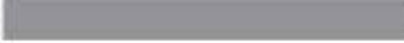



# You might need an IAT if....

- You're currently doing ACH cross-border transactions (CBR/PBR)
- You're a U.S. subsidiary of a non-U.S. company
- You have pensioners or employees living outside of the U.S.
- You make ACH payments to vendors located outside of the U.S., even if the payments are initially going to a U.S. account
- You buy or sell anything over the internet

# Why should I care?

Anti-money-laundering fines over \$5 million since 2001

	Date of penalty
Bank of China  \$10M	Jan. 17, '01
U.S. Trust  \$10M	June 13
Banco Popular  \$22M	Jan. 16, '03
Riggs Bank  \$41M	May 13, '04
AmSouth  \$50M	Oct. 12
Arab Bank*  \$24M	Aug. 17, '05
ABN Amro*  \$80M	Dec. 19
BankAtlantic  \$10M	April 26, '06
Israel Discount Bank  \$12M	Oct. 31
Amex Bank  \$60M	Aug. 6, '07
Union Bank of Calif.  \$32M	Sept. 17

\*New York branch

Source: American Banker

# But I'm not a bank!

Executive order 13224 (OFAC) was issued in 2001

- Applies to *everyone* not just FIs
- Prohibits any business with Specially Designated Nationals (SDNs)
- Freezes SDN assets
- Substantial penalties for non-compliance

# Agenda

- Key Points
- Definition of IAT and Payment Transaction
- IAT Scenarios
- Best Practices
- Action Items
- Q&A

# Key Messages for Corporates

- IAT changes were made for regulatory compliance reasons
- Corporates must comply with OFAC requirements and are subject to same penalties as financial institutions
- Corporates can help themselves by identifying potential transactions that must be formatted as IATs or that are international in scope
- First step is to understand and recognize OFAC requirements
- Remember your banker is here to help...

**BUT YOU'RE STILL RESPONSIBLE!**

Office of Foreign Assets Control was established to administer and enforce economic and trade sanctions based on U.S. foreign policy and national security goals

- American citizens and permanent resident aliens located anywhere in the world
- Any individual, regardless of citizenship, who is physically located in the United States
- Corporations organized under U.S. law, including foreign branches of U.S. companies
- Any corporation or company physically located in the United States, including U.S. branches, agencies and representative offices of foreign corporations

## OFAC maintains a list of Specially Designated Nationals

- Over 3000 unique entities identified by OFAC
- Individuals or entities all over the globe
- Owned, controlled by or acting on behalf of targeted governments or groups
- Designated narcotics traffickers, terrorists, terrorist groups, WMD proliferators and support networks
- Current list available at the OFAC website

# OFAC Compliance

Letter dated November 9, 2004

- U.S. ODFIs **and their Originators** will continue to be responsible for ensuring that all parties to the transactions, as well as the underlying purpose of the transactions, are not in violation of OFAC regulations, and they will need to take appropriate steps to investigate, suspend, reject, block, and report on transactions.

# So what's an IAT?

- **International ACH Transactions** – 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.
  - An office of a financial agency is involved in the payment transaction if it –
    - holds an account that is credited or debited as part of the payment transaction; **or**
    - receives funds directly from a Person or makes payment directly to a Person as part of the payment transaction; **or**
    - serves as an intermediary in the settlement of the 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.

# And a payment transaction?

## Payment transaction

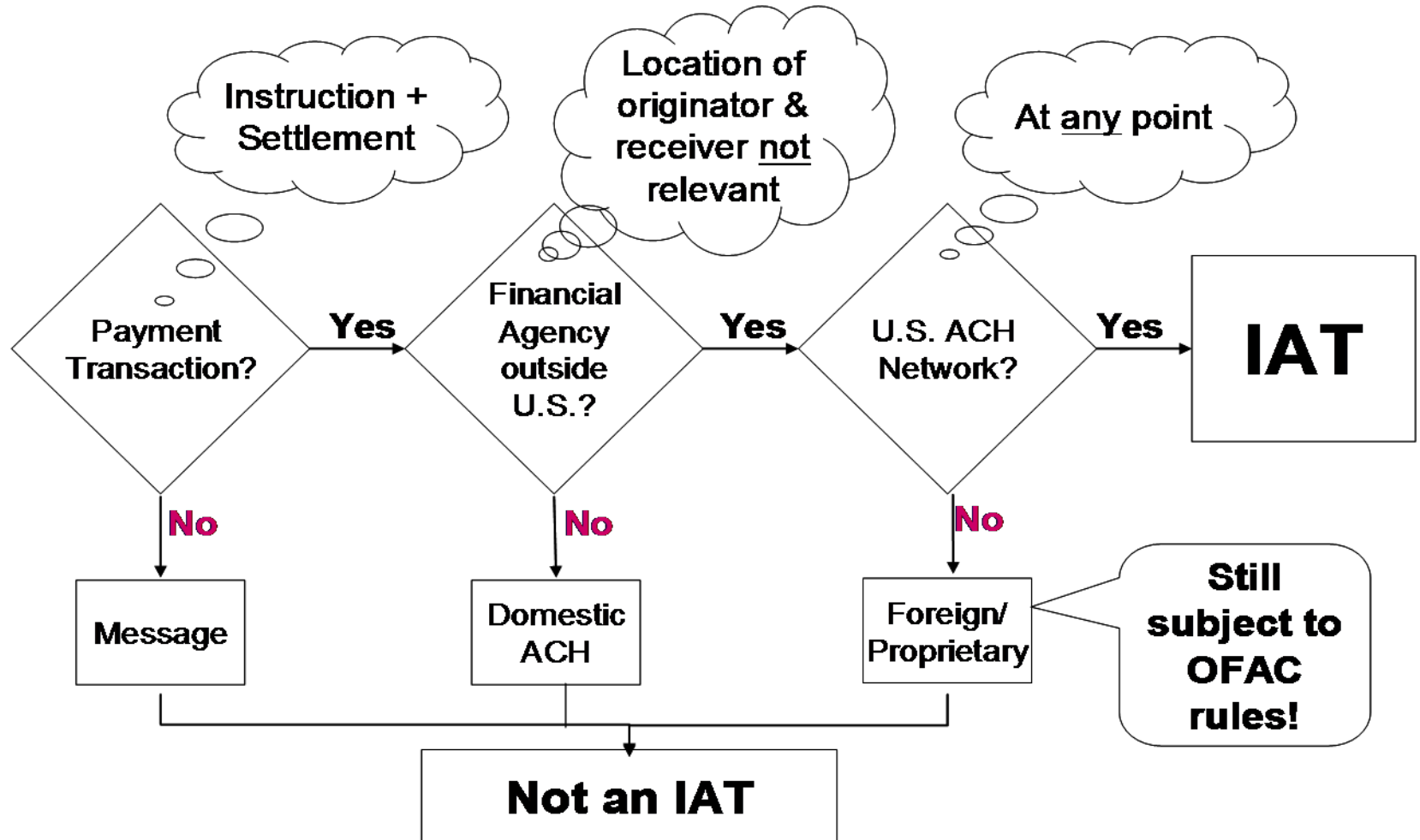
- 1) an **instruction** of a sender to a bank to pay, or to obtain payment of, or to cause another bank to pay or to obtain payment of, a fixed or determinate amount of money that is to be paid to, or obtained from, a receiver, **and**
- 2) **any and all settlements**, accounting entries, or disbursements that are **necessary or appropriate to carry out the instruction**.

# The IAT Formula

$$\begin{array}{l} \text{Payment} \\ \text{Transaction} \\ \text{(Instruction + Settlement)} \end{array} + \begin{array}{l} \text{Financial} \\ \text{Agency} \\ \text{(Outside the} \\ \text{Territorial Jurisdiction} \\ \text{of the United} \\ \text{States)} \end{array} + \begin{array}{l} \text{U.S.} \\ \text{ACH} \\ \text{Network} \\ \text{Use of the IAT SEC} \\ \text{code is required IF} \\ \text{the transactions} \\ \text{flow through the U.S.} \\ \text{ACH Network at} \\ \text{some point!} \end{array} = \text{IAT}$$

*Location of the originator and beneficiary is **not** considered in the Identification of an IAT transaction.*

# Is My Transaction an IAT?



# IAT Entries

- Entries may be either a debit or credit to the Receiver's account.
- The Receiver may be a consumer or corporate accountholder.
- IAT entries flow through the domestic ACH Network and settle in U.S. dollars.
- The ACH formats are different for those entries designated as IAT. The formats of other ACH entries do not change.

# New Mandatory IAT Fields

- Originator Name
  - Physical address, street, city, country, zip
- Receiver Name
  - Physical address, street, city, country, zip
- Originating DFI Name (Inbound – Foreign DFI)
  - Identification number and branch country code
- Receiving DFI Name (Outbound – Foreign DFI)
  - Identification number and branch country code
- ISO Country and Currency Codes
- Foreign Exchange Indicator

# IAT Scenarios Document

- Variations on potential IAT situations
- Not all inclusive but representative
- Have been **reviewed and agreed to by OFAC**
- Many current domestic ACH payments are really international payments
- All parties to the transaction must comply with NACHA rules
- Inbound and outbound payments
- Originators and receivers
- Posted at: [www.nacha.org/IAT\\_Industry\\_Information](http://www.nacha.org/IAT_Industry_Information)

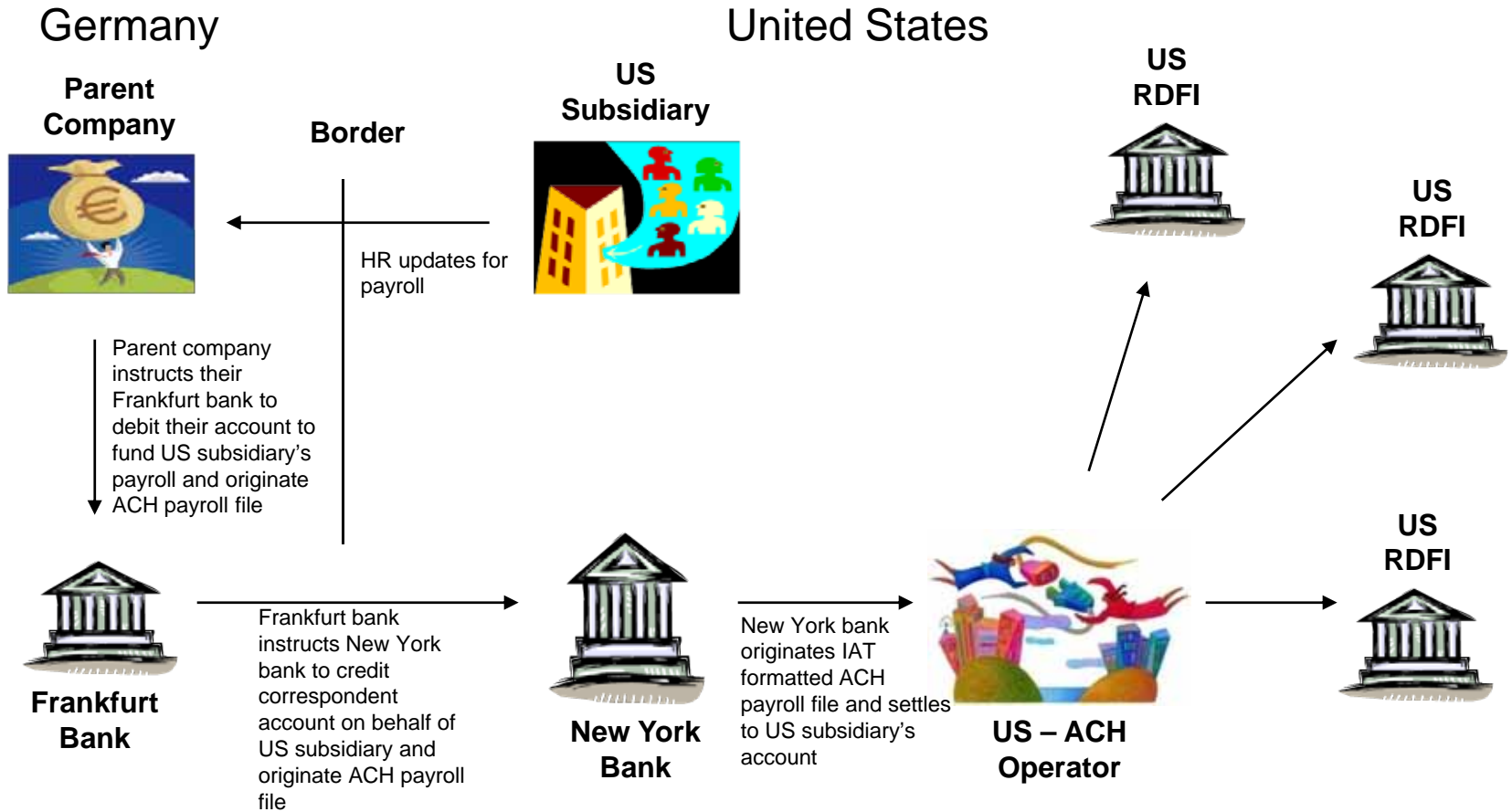
# Inbound Payroll IAT

- Multinational company with US subsidiary
- Centralized HR services at parent company in Germany, including record keeping and banking
- Twice monthly:
  - The US subsidiary sends changes in employee status to the parent company's central system
  - The parent company sends a payroll file to their Frankfurt bank with instructions to debit their account to fund the payment file

# Inbound Payroll IAT

- Upon receipt of the files, the Frankfurt bank –
  - Debits the parent company's account
  - Sends a SWIFT message to its New York correspondent to -
    - Credit its correspondent account on behalf of the US subsidiary
    - Originate an ACH file to satisfy payroll and debit their account for settlement

# Inbound Payroll IAT



# Inbound Payroll IAT

- Interesting to note
  - Had the funding instruction not come from the either the parent company or the Frankfurt bank, and the funding was provided by the US subsidiary, then the payments would be PPDs
  - If the parent company executed the payments through their New York bank where their account was held, then the payments would be PPDs
  - The location of the originator is not important in determining the need for an IAT

# Outbound Pension IAT

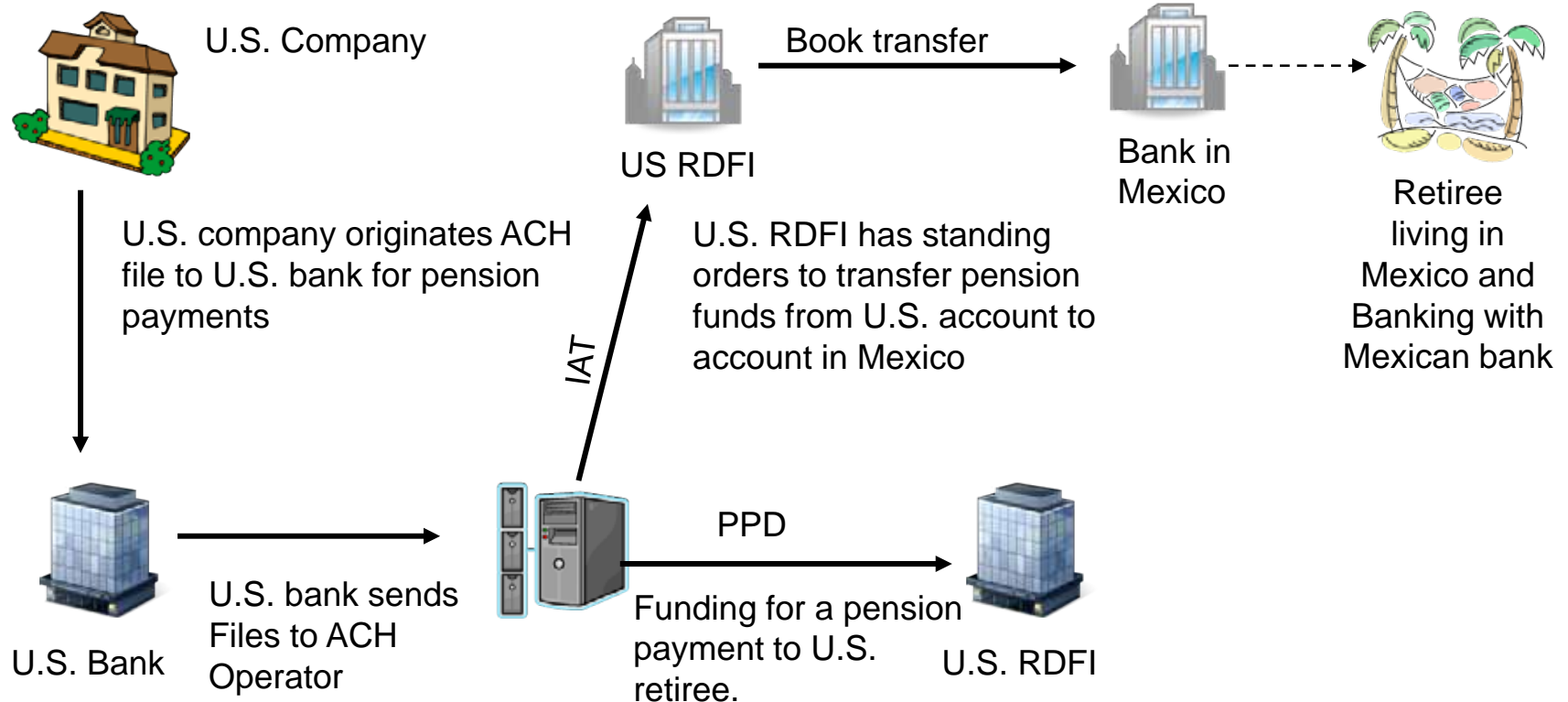
- US domiciled company makes monthly pension payments to 450 resident US retirees and two retirees living outside of the United States

# Outbound Pension IAT

- Upon receipt of the pension file from the company, the California bank originates an ACH file into the network and debits the company's account:
  - 448 of the retirees have bank accounts in the United States and reside in the United States
  - One retiree lives in France and has an account at a US bank in the United States
  - One retiree lives in Italy and maintains a bank account in Italy with an Italian bank, that in turn, has a correspondent relationship with a bank in New York

# IAT Transaction Chain

**Outbound IAT Transactions – sending pension funds out of the U.S. to a financial institution outside the territorial jurisdiction of the U.S. for a non-resident pensioner**



# Outbound Pension IAT

- Interesting to note
  - One retiree lives outside of the US, but maintains an account in the US. Since a financial agency outside the US was not involved in the transaction, the payment is domestic
  - Although a receiver that resides outside of the US should raise suspicions that an IAT may be required, it is the presence of a non-US financial agency that dictates the need for an IAT

# IAT Scenarios Key

- If any of the financial institutions involved in the settlement of the transaction is outside the territorial jurisdiction of the U.S.
- If the money to fund the transaction is coming into/or out of the U.S. with the payment request, the items are considered IAT transactions.

# Implications to Corporations

- Receivers
  - Potential delay in posting of incoming transactions to investigate potential OFAC violations
- Originators
  - Potential delay in origination of transactions while suspect items are cleared

No time limit for investigation of suspect transactions.

# Best Practices

- Work with your Financial Services Providers
  - Since all financial institutions are required to receive IATs, but originating IATs is optional, ask your banker about products that will be available to you
    - Changes to file formats for origination
    - Discuss file transmission options
    - Is programming necessary?
    - Does the financial institution offer alternative methods for formatting IATs?

# Best Practices

- Work with your Financial Services Providers
  - Ask your financial institution about IAT receiving changes:
    - What will new reports look like?
    - How can all the new addenda details be obtained?
    - Do I need to receive all of the addenda details?
    - How will new transmissions be formatted?
      - » NACHA formatted received files
      - » BAI
      - » EDI

# Best Practices

- Work with your Financial Services Providers
  - Discuss requirements and options with third parties that originate payments on your behalf, such as:
    - Payroll processors
    - Electronic bill presentment and payment (EBPP) vendors
    - Accounts payable outsourcers

# Best Practices

- Work with your Financial Services Providers
  - Testing procedures and availability
  - Are new service agreements required?
  - Are new service codes planned?
  - How will the IAT services be priced?

# Corporate Readiness Checklist

- ✓ Familiarize yourself with new rules related to IAT
- ✓ Review IAT scenarios
- ✓ Review existing OFAC compliance policy
- ✓ Review existing vendor, employee and pension payments for possible IAT applications
- ✓ Ensure that additional mandatory information is available in company database to populate fields if IAT is required
- ✓ Communicate with FIs & vendors to ensure they will be prepared for IAT implementation
- ✓ Test with FI(s) and/or vendors

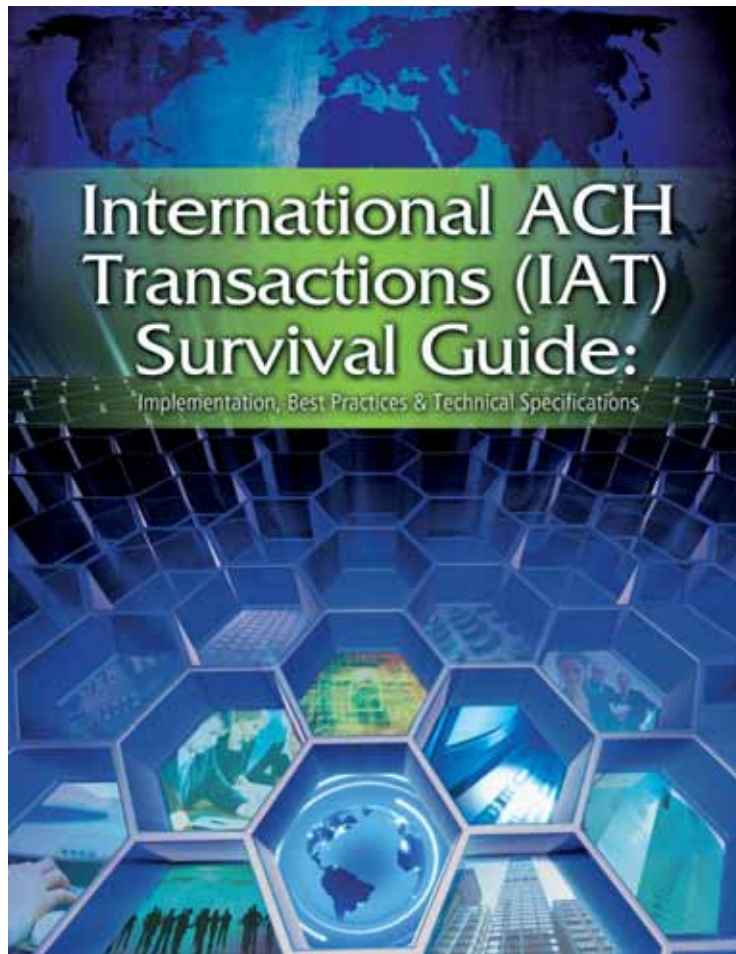
# IAT Corporate Tool Kit

## IAT Resource Page

- IAT for Corporate Practitioners, Executive Summary
- IAT Payment Scenarios Simplified
- IAT FAQs for Corporate Practitioners
- IAT Equation
- Is My Transaction an IAT?
- IAT Readiness Checklist for Corporate Practitioners
- IAT Corporate Newsletter Article
- IAT Specific Data Elements
- IAT PowerPoint – IAT Overview for Corporate Practitioners

[http://www.nacha.org/IAT\\_Industry\\_Information/](http://www.nacha.org/IAT_Industry_Information/)

# IAT Survival Guide & IAT Quick Reference Cards



- IAT Survival Guide, Version 3
- IAT Quick Reference Cards
- Currently available at <http://pubs.nacha.org/risk.html>

# Summary

- ACH Originators need to examine their file and funding practices if a non-U.S. financial institution is part of their payables flow.
- ACH IAT Scenarios are not all encompassing.
- ACH Originators need to know their Receivers. The address of the beneficiary or supplier could be indicative of cross-border forwarding.
- ACH Originators should seek help from their ODFI if they need assistance in determining whether their ACH entries should be coded as IAT entries.
- ACH Receivers need to understand that some of their transactions may be affected if they have any incoming IATs
- You are ultimately responsible for compliance.

# IAT Implementation Date

**September 18, 2009**

# Questions and Certification



To obtain a certificate of completion for CPE or other financial certification please email [CPE@treasuryalliance.com](mailto:CPE@treasuryalliance.com)

A copy of the Webinar slides and a recording of the Webinar will be on [www.treasuryalliance.com](http://www.treasuryalliance.com) in the resources tab

Join fellow alumni from this and other Treasury Alliance Group programs in networking about the issues discussed and simply keeping in touch. Go to:

<http://www.linkedin.com/e/gis/81318/37CD3F56BA8F>

# For further information

Priscilla C. Holland, AAP, CCM  
Senior Director, International Programs  
NACHA  
[pholland@nacha.org](mailto:pholland@nacha.org)

Mark K. Webster, CCM, CPA  
Partner  
Treasury Alliance Group LLC  
Phone (216) 932-1678  
[mark.webster@treasuryalliance.com](mailto:mark.webster@treasuryalliance.com)

