

IAT for Corporate Practitioners

Implementation Date

September 18, 2009

Agenda

- Why Should ACH Participants Understand the IAT Rule
- ACH Participants Most Likely to be Impacted
- Definition of IAT and Payment Transaction
- Scenarios to Help Understand When to Use the ACH IAT
- Action Items

IAT Key Messages for Corporate Clients

- 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!

Why Should ACH Participants Understand IAT?

OFAC violations carry penalties.

- ACH Receivers and Originators are subject to U.S. law, including OFAC sanctions.
- Originating Financial Institutions will obligate an Originating Company or Third Party Sender through the warranties in their ACH origination agreement or terms & conditions.
- Originating Company acknowledges that they may not initiate ACH entries that violate the laws of the United States.

ACH entries could be delayed.

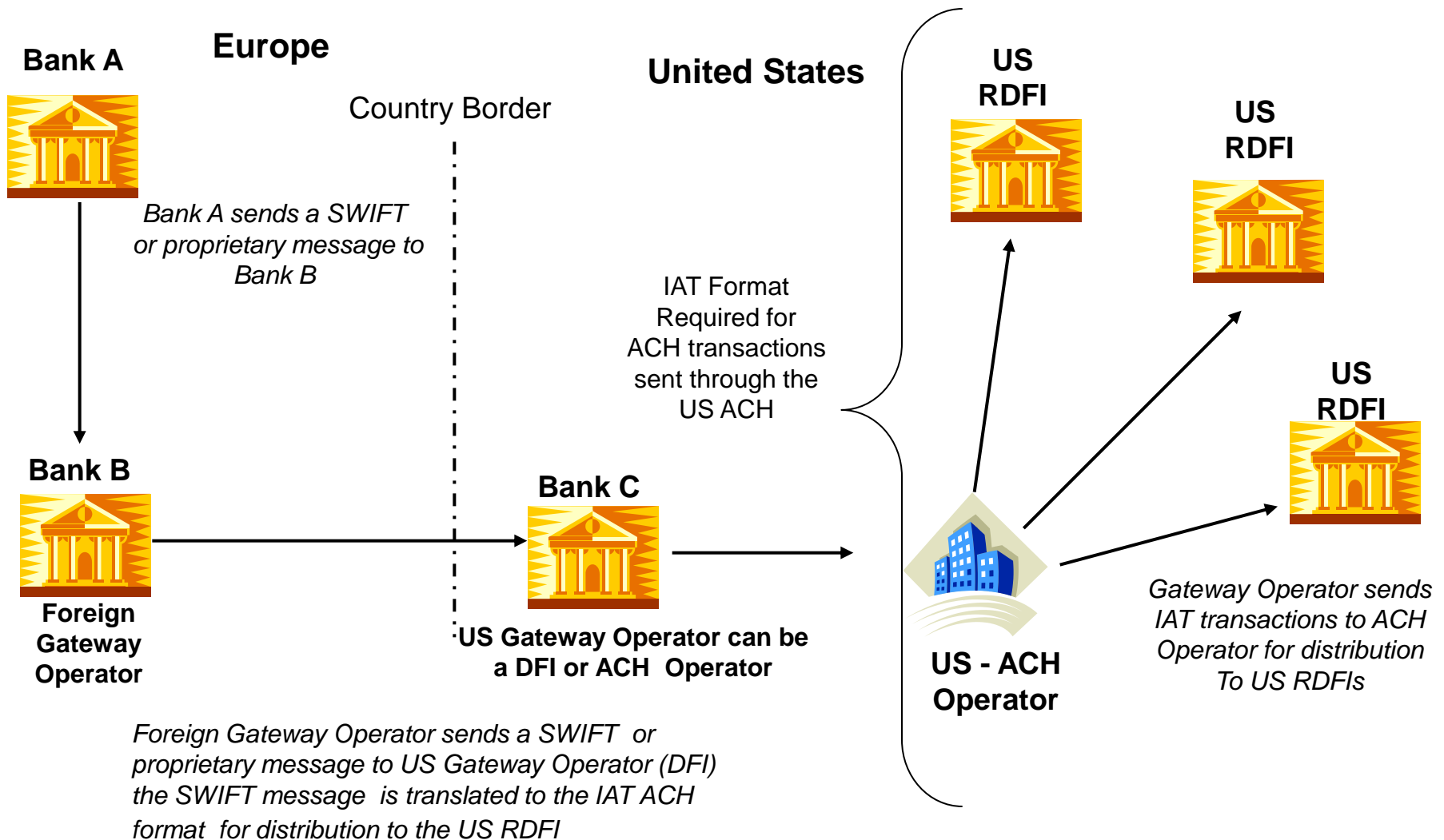
- Financial institutions when handling ACH transactions are subject to both U.S. law and the NACHA Operating Rules.
- Financial Institutions will be required to OFAC screen both inbound and outbound ACH IAT entries so there may be delays if an entry needs to be scrutinized further.

ACH Participants Most Likely to be Impacted

- Non-U.S. headquartered companies with U.S. operations
- U.S. companies with pensioners or employees located outside of the U.S. and possibly have funds forwarded to a non-U.S. financial institution.
- Third-Party Senders or Payment Aggregators
- U.S. companies with vendors located outside the U.S.
- U.S. companies receiving ACH credit entries from offshore entities

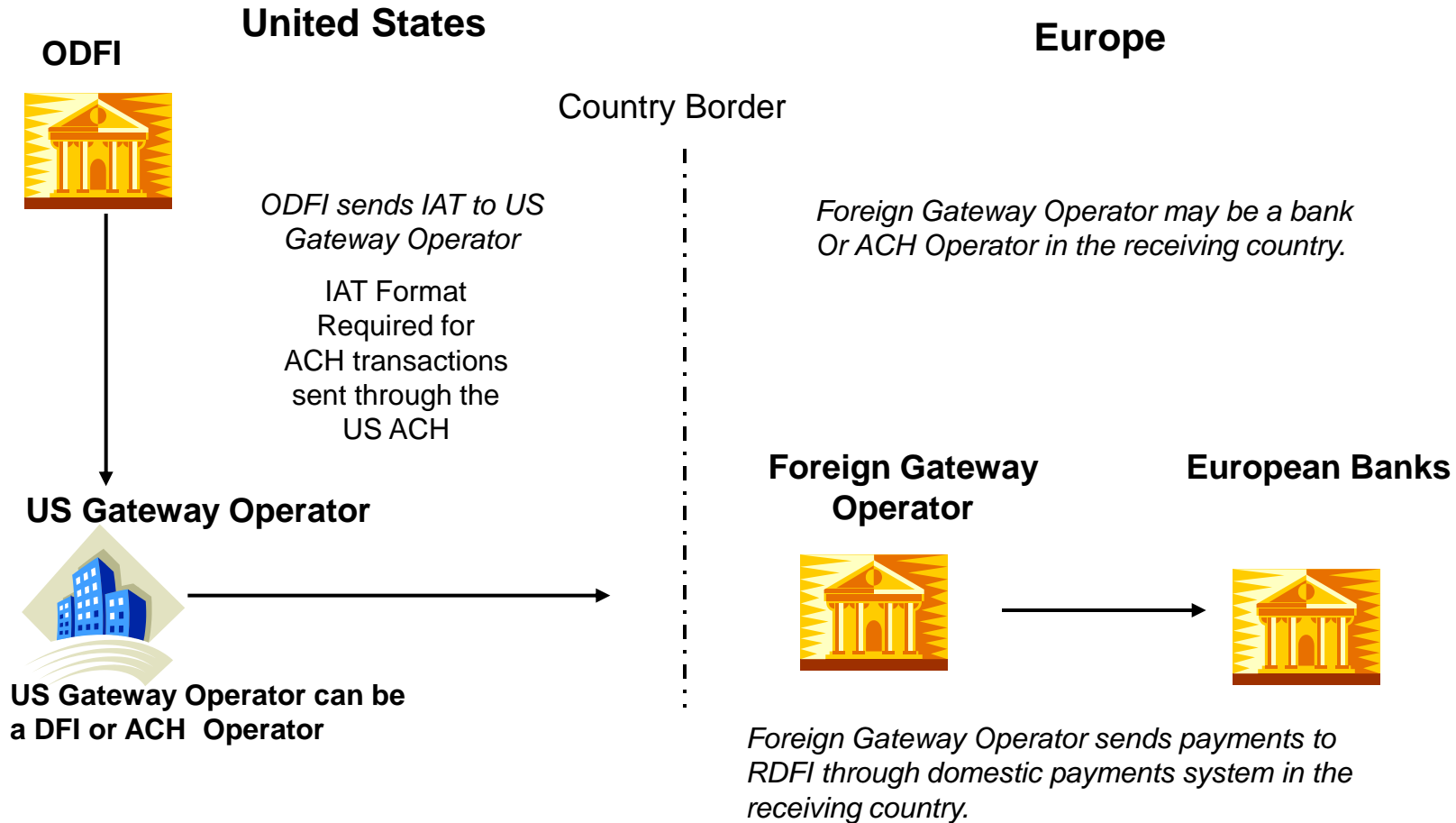
Inbound IAT Process Flow

ACH Operator acting as Gateway Operator must limit inbound IAT to credit only, DFI may process both debits and credits inbound



Outbound IAT Process Flow

ACH Operator or DFI acting as Gateway Operator may process both outbound debits and credits



IAT Definition - Key Components

Definition

- 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 U.S.

A financial agency is involved if one or more applies.

The financial agency / financial institution:

- Holds an account that is credited or debited as part of a payment transaction
- Receives funds directly from a Person or makes payment directly to a Person as part of a payment transaction
- Serves as an intermediary in the settlement of any part of a payment transaction

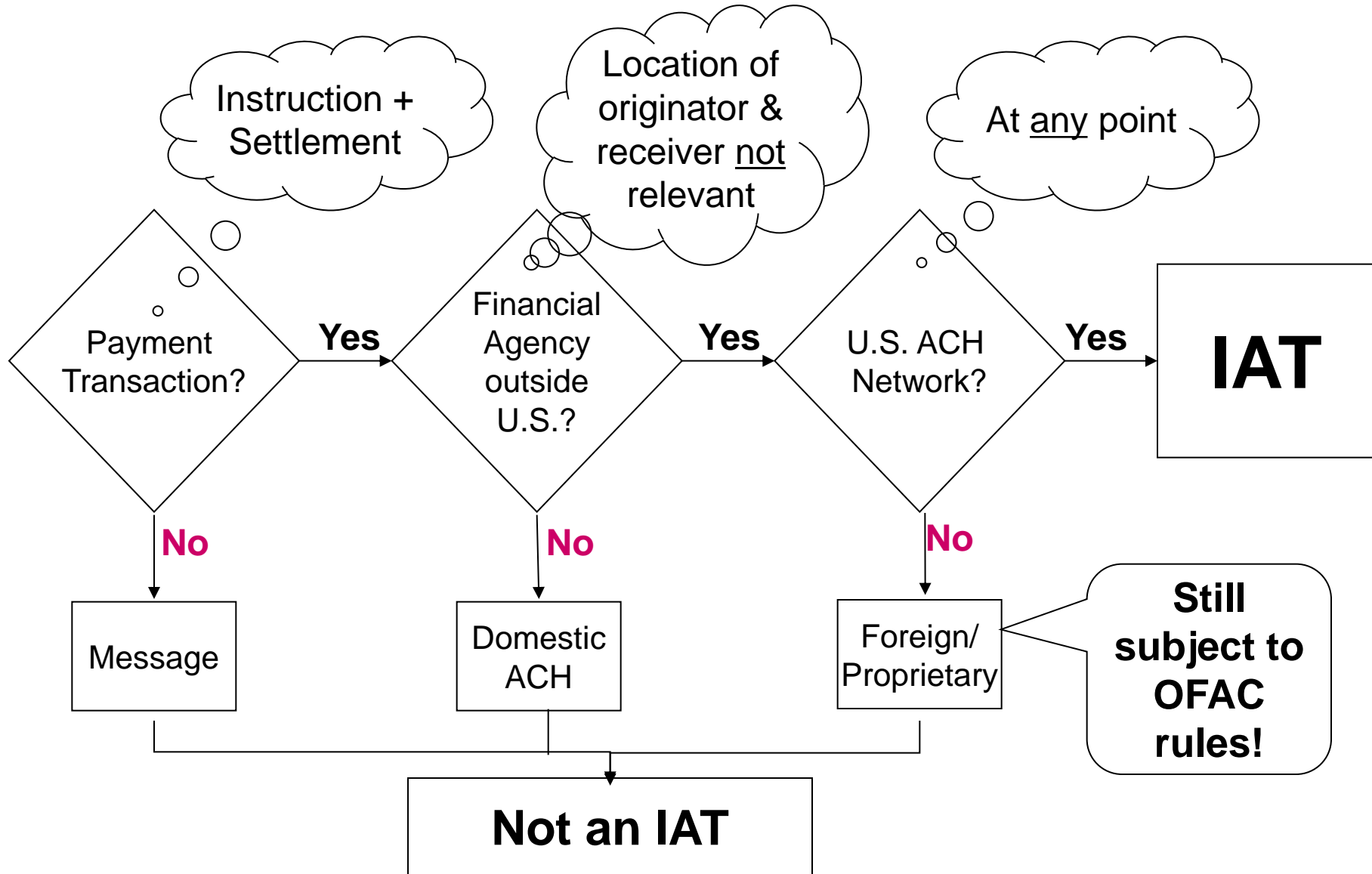
Payment Transaction Guidance

“Payment Transaction” is not defined, OFAC requested that the following guidance be included in the ACH Operating Guidelines.

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 settlement, accounting entries or disbursements that are necessary or appropriate to carry out the instruction.

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.

IAT Scenarios Document

- Developed by NACHA staff and representatives from several large global transaction banks.
- These scenarios are not all inclusive and other scenarios may be developed and discussed – but the scenarios in this document have been **reviewed and agreed to by OFAC** with regards to the interpretations of the scenarios.
- Posted at:

www.nacha.org/IAT_Industry_Information

IAT Scenarios Key

- If 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.

IAT Origination Scenarios

U.S. domiciled company which is a subsidiary of an offshore multinational corporation is originating ACH credits – payroll, pension, vendor payments.

Entries are NOT to be originated as ACH IAT entries in these 3 scenarios:

- A) the U.S. domiciled company's U.S. financial institution and receiving banks are all in the territorial jurisdiction of the U.S. and the funding of the file is through domestic business activities of the U.S.-domiciled company.
- B) the multinational parent is sending the ACH origination file and the funding is through business activities of the U.S. subsidiary and receiving banks are all in the territorial jurisdiction of the U.S.
- C) the multinational parent is sending the ACH file and the parent instruction its non-U.S. bank to send a message to the U.S. bank to pay the employees, a U.S. bank is debited for the funding of the file of entries and the non-U.S. bank did not serve as an intermediary in the settlement.

IAT Origination Scenarios

U.S. domiciled company which is a subsidiary of an offshore multinational corporation is originating ACH credits – payroll, pension, vendor payments.

Alternatives to C) from the previous page -

The offshore parent sends the payment file to its non-U.S. financial institution and uses a non-U.S. financial institution to fund the activity.

(The non-U.S. financial institution uses a U.S. correspondent or U.S. branch to release entries into the ACH network.)

The ACH entries should be coded as IAT entries because a non-U.S. financial institution was involved in conveying the instructions (handling of the file) and the funding/settlement.

Reinforcing ACH IAT Determination

IAT =

Payment Transaction	+ Financial Agency	+ U.S. ACH Network	= IAT
(Instruction and Settlement)	(Outside the Territorial Jurisdiction of the U.S.)	Use of the IAT SEC code is required IF the transactions flow through the ACH Network at some point.	

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

IAT Origination Scenarios

NACHA Clarifications:

If funding of ACH credit entries occurs as a result of the recurring practice setting of cash in the U.S. account(s) and not through a funding activity that is explicitly for the ACH file, the ACH entries should not be coded as IAT entries.

Corporate originators and Third Party Senders will be exempted from the requirements to remit tax payment obligations and wage garnishments to state agencies even when the Direct Deposit portion of the financial transactions were coded and originated as IAT credit entries.

IAT Origination Scenarios

D) ACH Debits for payments to foreign receiver(s)

Foreign financial institution offers service allowing persons in the U.S. to send funds to persons holding accounts outside of the U.S. A SWIFT message to non-U.S. financial institution is used to reach the receiver.

The ACH debit to the person in the U.S. would need to be an IAT debit.

IAT Origination Scenarios

G) ACH Credits for payments to foreign receiver(s)

Foreign financial institution offers service allowing companies in the U.S. to send funds to persons or businesses holding accounts outside of the U.S.

The foreign financial institution uses a correspondent in the U.S. as the collection point within the network and funds are up-streamed daily to the foreign financial institution.

The entries originated by the U.S. companies would need to be IAT credits.

IAT Origination Scenarios

H) Money Transmitters

A U.S.-domiciled money transmitter receives a payment order from a foreign customer at one of its foreign branch offices to send funds to a Receiver in the U.S.

The money transmitter makes a book entry to record the transaction on the books of its offices in both countries, and creates an ACH credit entry to send the funds to the Receiver in the U.S.

The ACH credit to the Receiver in the U.S. should be coded as an IAT credit.

IAT Origination Scenarios

F) Pension Payments

A subset of ACH PPD credit entries are originated via an U.S. originating financial institution and received by the U.S. branch of a foreign, off-shore financial institution. The entries are forwarded by the off-shore financial institution to the Receiver's offshore bank account.

It is not the location of the Receivers (retirees) but the destination of the off-shore financial institution.

This has been the most controversial scenario as it is not always possible for the Originator to know whether funds have been forwarded. Receiver's address may not be the best indicator but may be indicative of the need to request more information.

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

ACH IAT Action Items

ACH IAT Scenarios are not all encompassing.

- ✓ ACH Originators need to examine their file and funding practices if a non-U.S. financial institution is part of their payables flow.
- ✓ 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 IAT Action Items

If originating IAT, allow enough time for IAT format preparation.

- ✓ Request the IAT Survival Guide
- ✓ Understand the content of the 7 addenda records required with each entry.
- ✓ Collect information on Receivers and Receiving bank to formulate the IAT entries.
- ✓ Contact your financial institution to indicate need for specific testing instructions.

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