

INTERNATIONAL ACH FREQUENTLY ASKED QUESTIONS



What is NACHA? The National Automated Clearing House Association (NACHA) is an organization that develops electronic solutions to improve the ACH payment system in the United States. NACHA develops operating rules and business practices for the U.S. Automated Clearing House (ACH) network and for electronic payments. Some of NACHA's primary functions include rule-making for the ACH network and other payment systems, facilitating the development of new payment applications, identifying and implementing risk management initiatives, and responding to regulatory and government relations issues.

What is OFAC? The Office of Foreign Assets Control of the United States Department of the Treasury administers and enforces economic and trade sanctions based on United States 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 United States jurisdiction.

As a corporate originator/receiver, do I have OFAC responsibilities? 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. The Originating Company acknowledges that they may not initiate ACH entries that violate the laws of the United States.

What does SDN mean? 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 (SDNs). Their assets are blocked and United States persons are generally prohibited from dealing with them.

What is an SEC code? Standard Entry Class (SEC) codes are used to distinguish different types of entries in ACH transactions. The codes have different formats and requirements. Some of the more commonly used codes are:

- PPD – Prearranged Payment and Deposit Entry: typically used for direct deposit of payroll
- CTX – Corporate Trade Exchange: typically used between corporations for trade payments and can carry addenda records with remittance detail
- WEB – Internet Initiated Entry: initiated via the internet to effect a transfer from a consumer account
- TEL – Telephone Initiated Entry: an oral authorization obtained over the telephone
- ARC – Accounts Receivable Entry: typically a consumer check sent to a lockbox and converted to an ACH transaction

What is an IAT? A new SEC code for ACH payments used to identify international transactions. An IAT is defined as a payment transaction involving a financial agency's office (funding or receiving) that is located outside the territorial jurisdiction of the United States AND at some point enters the United States ACH Network

Why add IAT? The primary reason for this change is in response to an OFAC request for NACHA to align their operating rules with OFAC compliance obligations. The additional data required on the IAT will provide financial institutions the ability to better recognize international transactions and identify blocked parties. The additional addenda requirements also provide consistency with SWIFT for ease of mapping and consistency with other payment network formats.

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How do I know if I should use the IAT code for my ACH transactions? If you answer yes to any of the following questions, please contact Treasury Management Client Services at (800) 599-0020 option 2.

- 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?
- Does your company send payroll, pension, or benefit payments via the ACH Network to individuals that have permanent resident addresses outside the territorial jurisdiction of the United States?

Are ACH Transactions from military bases or embassies international or domestic transactions? Military bases and embassies are considered under U.S. jurisdiction so the transactions are considered domestic and will not require the use of IAT.

Can I continue to use the same SEC codes if a transaction has the involvement of a foreign financial institution? No, the information in these codes is not sufficient to comply with OFAC requirements. Effective September 18, 2009, these transactions will need to be sent using the IAT SEC code which provides financial institutions the information necessary to perform the review required by U.S. law. International transactions without the IAT code will be rejected.

What if I don't comply? Not complying with the requirements of the new IAT SEC code could have a number of consequences. NACHA rules violations carry fines. OFAC violations carry penalties that 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 www.treas.gov/offices/enforcement/ofac/.

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.

Can an IAT be reversed? Yes, but the reversal would be handled on a best effort basis. The receiving country may not support reversals.

Could any United States account receive an IAT credit or debit? Yes, any United States account could receive an IAT.

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.

Are stop pays allowed with IAT? Yes, there is no change in the ACH Rules regarding processing of stop payments.

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Can the recipient return an IAT? The IAT can be returned for specific reasons outlined in the ACH Rules but it cannot be returned or rejected solely because the accountholder does not want to process IAT entries.

What if the recipient claims the entry is not authorized? Financial institutions 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.

The IAT could be either consumer or corporate, which return time frame is applicable for unauthorized entries? The consumer return timeframe should be used for an unauthorized IAT entry.

What are the return timeframes for incoming IAT entries? The return timeframes have not changed for IAT processing under the NACHA operating rules.

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.

Could the conversion amount change in the return? Yes, the returned amount of the transaction could be different than the original amount of the IAT.

Can I request a copy of the IAT authorization? Yes, but the authorization requirements will vary by originating country as will the response time.

Can I receive the IAT remittance information? Remittance information can be supplied upon request.

What are the contact numbers or website for OFAC?

- OFAC Homepage: www.treas.gov/ofac
- OFAC SDN List: www.treas.gov/ofac/t11sdn.pdf
- Recent SDN Changes: www.treas.gov/ofac/t11sdnew.pdf
- Downloadable SDN List: www.treas.gov/ofac/t11sdall.exe
- OFAC FAQs: www.ustreas.gov/offices/enforcement/ofac/faq/answer.shtml#24