



If It Looks and Acts Like a Domestic ACH, Could a Transaction Still Be an IAT?

The new International ACH Transaction (IAT) rule would be much easier to understand — and affect fewer corporations — if it only applied to cross-border transactions, as its name suggests. The reality, however, is that many transactions that seem purely domestic will be considered IATs under the rule that goes into effect on September 18, 2009.

As a result, many corporations have considerable work to do between now and next fall. They must identify which of their transactions are IATs and then make the systems enhancements necessary to comply with the new rule from NACHA — the Electronic Payments Association.

A New Rule and Format

The new rule is the result of pressure from the Office of Foreign Assets Control (OFAC). OFAC administers and enforces economic and trade sanctions based on US foreign policy and national security goals. To support its efforts, OFAC requires US banks to scan international ACH transactions to learn if either the originator or beneficiary is on OFAC's list of foreign states, organizations and individuals with whom US citizens are not allowed to do business. This requires cross-border ACH transactions to include information stipulated by the Bank Secrecy Act's Travel Rule, including the country and address of the payor and the beneficiary.

Despite this current obligation, the NACHA formats used today for cross-border ACH transactions, CBR and PBR, don't have fields for carrying the Travel Rule information. To remedy this, NACHA has created a new format, the IAT, that will tag cross-border transactions as being international and will include extensive fields to carry Travel Rule information.

Here's Where It Gets Complicated

If it was just a matter of corporations converting all of their cross-border ACH transactions to the new IAT format, the process of making the switch to the new format would be rather uncomplicated. However, what's making the rule's upcoming implementation a much bigger event is how NACHA is defining the type of transaction that needs to be treated as an IAT.

In order to appease OFAC and capture information on a wider range of potentially offending transactions, in the new rule NACHA classifies as international ACHs some transactions that at first glance appear to be purely domestic ACH transactions. Such classifications, which have caught many treasury managers off guard, are based on factors such as where transaction funding is originating or the fact that the funds from the transfer are later being forwarded overseas.

Here's a simple example: A US subsidiary of a German company uses the ACH to pay its US employees in a direct deposit application. The payments appear to be domestic ACH transactions. However, if payroll is being funded by the company's headquarters in Frankfurt through a German bank, according to the new rule the payroll transactions are IATs.

Here's another one: A US-based company sends pension payments through the ACH to the US bank account of a retiree who now lives in Mexico. The US bank has instructions to forward the payment to the retiree's account in Mexico. Because of the transaction's second "leg," the first ACH is considered an IAT, and ultimate beneficiary information must be captured.

How Corporations Must Prepare

In order to address the new IAT rule, a corporation must first identify which of its ACH transactions should be treated as IATs. A good starting point is the [IAT Payment Scenarios Simplified](#) page on the NACHA Web site. If you need further clarification of how the rule applies to your company's particular scenarios, talk to your Cash Management representative at Deutsche Bank.

If you determine that your company only has a small number of transactions that must be treated as IATs, you can use the manual data entry capabilities of Deutsche Bank's online banking system to input the additional Travel Rule information for those transactions. However, if you have a significant volume of IATs and are delivering them to Deutsche Bank through a data import or host-to-host connection, you will need to enhance your systems to create the new IAT format and retain more information on each transaction.

For more action steps, review NACHA's [IAT Readiness Checklist for Corporate Practitioners](#).

Biggest Change in 20 Years

For banks, the IAT rule is one of the biggest changes NACHA has introduced in the last 20 years. The rule affects every bank that receives or initiates ACH transactions, because they will be required by OFAC to filter all outgoing and incoming international ACH transactions, which they don't do today.

The challenge for banks includes updating systems to handle the new IAT format, as well as building links from ACH processing systems to OFAC-monitoring systems. These enhancements are well under way at Deutsche Bank and will be ready by the September implementation date.