

# IAT decoded

Everything you need to know about the new International ACH Transaction class code and how it might just create a business opportunity

By Priscilla Holland, AAP, CCM

**W**ith the implementation of the new International ACH Transaction (IAT) Standard Entry Class (SEC) code on September 18, the fundamental definition of what constitutes an international ACH payment has changed. This affects all parties that rely on the ACH Network as the utility for sending international payments or for receiving payments initiated abroad. While financial institutions ultimately bear the responsibility for sending and receiving ACH payments through the Network, all parties in the chain need to understand the IAT rules, including processors, ISOs, and other vendors/providers that enable payment services, as well as the merchants themselves.

The IAT rules define international ACH transactions based on where the financial

agency that handles the payment is located. As a result, additional information on all parties to the transaction has been incorporated into the IAT format, which enables compliance with Office of Foreign Assets Control (OFAC) requirements.

Today, only a small portion of cross-border ACH transactions are identified as such because, practically speaking, only outbound transactions that are originated by U.S. financial institutions participating in the Federal Reserve's FedACH International service use the current PBR and CBR cross-border SEC codes. The remaining cross-border transactions are introduced into the ACH Network using domestic SEC codes, which makes it impossible for receivers to identify these transactions as having been originated abroad.

Now, however, all ACH transactions that meet the IAT definition must be coded using the new format and are subject to the IAT rules. In addition, an OFAC compliance review and the investigation of suspect IAT transactions are required by financial institutions that send and receive these transactions and the merchants that originate them. Again, parties that enable the merchants need to understand these requirements to support them.

If you do not think that you receive transactions that are subject to the IAT rules, consider these scenarios:

- How many account holders purchase products from eBay or other sales Web sites? How about the account holder who buys replacement pieces for his good china from retailers in England and uses a PayPal account to fund

the transaction? The ACH debit transaction from PayPal or a similar provider to fund the purchase from the retailer in England should be an IAT transaction.

- How many employees work for multinational companies or firms owned by a foreign entity? If the funding for direct deposit of payroll is provided from the parent company in another country, the employee should receive her direct deposit as an IAT transaction.
- How about workers residing in a state that borders Canada or Mexico who are employed in those countries and are paid via direct deposit to their U.S. accounts in the? The employee should receive his direct deposit as an IAT transaction.
- How many consumers currently use a decoupled debit card from another institution? If a consumer uses a decoupled debit card to purchase a souvenir on her trip to Rome, the POS debit should be received as an IAT transaction.

The introduction of the IAT involves more than just implementing a new SEC code. OFAC and financial bank examiners expect financial institutions to conduct a full OFAC review of all IAT transactions. The review should include all parties to the transaction including financial institutions and remittance data. Many financial institutions assume their vendors will take care of IAT compliance. While they may handle the IAT format and possibly the OFAC screening of the transactions, the financial institution is responsible for the investigation of suspect transactions and reporting to OFAC.

### Frequently Asked Questions

Provided are a few of the most frequently asked questions about IAT. These questions and answers assume a basic understanding of IAT, formatting requirements, and OFAC review requirements.

**Question:** Does the IAT require any new language on DDA statements?

**Answer:** While the IAT does not require new statement language, the RDFI may need to pull information for the statement from a new location in the ACH entry. For example, the Company Name field in other SEC codes is in the company/batch header record. In the IAT, this information is in the originator

name field in the second addenda record.

If the transaction type code field is populated with a secondary SEC code, the financial institution must check the payment-related information field in the remittance addenda record for information related to the payment that must be provided to the consumer (Regulation E requirement). This information is not in the same location as a domestic e-check application, such as BOC, POP, or ARC.

**Question:** If my payroll needs to be sent as an IAT, could my employees' availability of funds be affected?

**Answer:** Yes, for two reasons: First, unlike PPD, there is no requirement that IAT credit entries made available to an RDFI by its ACH operator by 5 p.m. on the banking day prior to the settlement date be made available to the receiver at the opening of business on the settlement date. Cleared IAT entries must be available by the settlement date of the entry, but funds are not required to be available at opening of business.

Second, if the IAT transaction was found to be suspect during the OFAC review, the transaction must be held until the issue is resolved and the item is cleared or identified as an actual OFAC violation.

**Question:** Who adds the IAT addenda record for foreign correspondent bank information to the IAT transaction, and what is the maximum number of optional addenda records?

**Answer:** The foreign correspondent addenda record is added when the transaction reaches the U.S. Gateway Operator on inbound IAT transactions only. Who creates the addenda record would be a decision made by the Gateway Operator and their customer, but it would be added at that point in the process.

There is a maximum of five optional addenda records for the IAT that can include the IAT addenda record for remittance information (maximum of two) and the IAT addenda record for foreign correspondent bank information. The remittance information addenda records take priority, so if there are two remittance information addenda records and more than three foreign correspondent banks involved in the transaction the additional foreign correspondent banks would be dropped. OFAC has been

clear that the remittance information must be passed to the RDFI.

**Question:** For inbound IAT transactions, which financial institution is identified in the fourth addenda record?

**Answer:** As defined by the NACHA Operating Rules, for an inbound IAT entry, the originating DFI identification field within the fourth addenda record must contain the national clearing system number of the foreign originating DFI. It would follow that all other information in this addenda record should also relate to the foreign originating DFI. Information about the U.S. ODFI/Gateway Operator is located in field sixteen of the IAT company/batch header record.

### Business Opportunity

Although a huge step for the industry, IAT offers financial institutions, processors, ISOs, and others a format and rules to efficiently and cost-effectively support international payments services for merchants. According to the U.S. Chamber of Commerce, more than 97 percent of the 266,457 U.S. companies that export products are small-to-medium businesses. These businesses look to you for assistance with international payments. IAT also enhances network processing and makes ACH formats consistent with other network formats like SWIFT, ensuring efficient mapping of data across platforms.

Through its Global Payments Forum, NACHA has established the U.S. International Committee to educate financial institutions, processors, providers, and their customers on all aspects of international payments, enable parties to leverage their investments in IAT, and influence the development of international ACH payments in the U.S. By assisting in the promotion and development of value-added products and services, NACHA and its members seek to transition IAT from a compliance burden to a business opportunity for all that offer international payment services to merchants. **TT**

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