

A Framework for Achieving Compliance with NACHA's IAT Rule

Recognizing the increasing number of cross-border ACH transactions and the vulnerability of cross-border ACH payments to abuse, NACHA is amending its operating rules. Effective September 18, 2009, all international transactions must use the new Standard Entry Class (SEC) code (IAT) and contain new field requirements. These field requirements include specific data elements defined by the Bank Secrecy Act's "Travel Rule." (The NACHA operating rules on IAT transactions are included in NACHA's *2008 ACH Rules* publication within the "2009 Rules Change" section.)

Currently, cross-border ACH transactions do not attract much attention because they are simply designated with the SEC codes CBR and PBR and are processed with all other ACH transactions. Receivers typically do not even know that they have received a cross-border ACH because transmissions from abroad enter the United States through correspondent banks and are then processed as domestic transactions. As a result, only originating depository financial institutions (ODFIs) can identify a cross-border ACH transaction. However, the new IAT rule is intended to end this anonymity and to promote the traceability of international electronic payments.

Accordingly, all U.S. financial institutions—not just large internationally active financial institutions operating as Originating Depository Institutions—will have information about inbound, cross-border ACH transactions that will enable institutions to screen these transactions for OFAC compliance and anti-money laundering risk.

ABA has prepared the following preparedness checklist to guide bank efforts to achieve timely compliance with their IAT compliance responsibilities. The checklist uses the "ADApT" framework to organize and guide financial institutions: **A**nalyze NACHA's IAT rules and guidelines and their interrelationship with OFAC and AML screening responsibilities; **D**evelop a comprehensive IAT implementation plan and necessary BSA/AML/OFAC procedure updates; **A**pply the plan throughout affected day-to-day operations; and **T**est the plan with ACH operators, your core processor, third-party service providers, correspondent banks, and customers to ensure that all systems will interface properly and be ready for the September 18, 2009 implementation date

ANALYZE: Review your current ACH operations and consider the impact of integrating OFAC screening and reporting on these operations as well as the broader implications of the IAT rule on your BSA/AML monitoring obligations. Consider:

- How ACH transactions currently flow through the bank. Consider
 - The volume of ACH transactions;
 - How and by whom ACHs are originated.

- How operating and reporting systems will need to be altered to accommodate OFAC screening responsibilities and BSA/AML monitoring.
 - Identify the role that the bank's core processor and/or third-party service providers will play.
- Whether because of the bank's operations, customer base, and correspondent banking relationships the bank should consider becoming a Gateway Operator.
 - Consider the fact that as a Gateway Operator, the financial institution warrants that all transactions are in compliance with U.S. law; therefore, the bank must investigate and clear any suspect IAT transactions before they are originated into the ACH network.
- How the ability to identify and monitor cross-border ACH transactions will affect the bank's OFAC and BSA/AML risk assessments.
- How the bank's OFAC, ACH, BSA/AML, Audit, and Record Retention policies and procedures will have to be amended to describe the bank's policy and procedure for complying with the IAT rule.
- Whether current staffing levels of information technology, operations, and BSA/AML employees can accomplish the necessary systems modifications, operational changes, screening, training, and audit responsibilities mandated by the IAT rule.

DEVELOP a comprehensive IAT implementation plan that will assign responsibility for and establish time tables for completion of the following:

- Assess the OFAC and BSA/AML risks presented to the bank by the ability to identify and monitor cross-border ACH transactions.
- Train staff (including operations, compliance, audit, and sales staff) on the IAT definition and formatting requirements and the OFAC screening responsibilities.
 - Note: exception handling for the IAT is different from that for domestic ACH entries. ACH staff will need additional training on this exception process.
- Develop a plan to identify and educate customers that originate ACH transactions.
 - Begin outreach by identifying and training corporate originators likely to initiate cross-border transactions to inform them of the definition of an IAT; the new "travel rule" information requirements; amended formatting requirements; and their OFAC compliance obligations.
- If necessary, select an Originating Gateway Operator to process outbound IAT entries.

- Verify that the bank's core processor will be able to accommodate the IAT SEC code and the additional field requirements.
 - Determine date that the core processor anticipates it will have implemented the necessary system changes to accommodate IATs.
 - Determine pricing and service codes
 - Revise contract with core processor.
- Review downstream applications for ability to accept new transaction codes, formats, and screening requirements.
 - Consider all of the applications that may be affected: DDA, loan, reporting systems, online banking, and statements.
 - Work with third-party service providers to establish a time-table for making the necessary modifications.
 - Revise contracts with third-party service providers.
 - Consider additional processing costs for IAT transactions and the potential impact on ACH pricing.
 - Consider Reg E requirements
- Review and revise ACH agreements with customers.
- Review and revise deposit agreements.
 - Consider adding a statement acknowledging that receivers of ACH transactions should be aware that the bank may, from time to time, need to temporarily suspend processing of an IAT transaction for further investigation and this may delay settlement.
- Revise written ACH, OFAC, BSA/AML, Audit, and Record Retention policies and procedures.
- Consider:
 - Drafting a form letter informing customers of delayed settlements necessitated when OFAC screening requires further investigation of a possible OFAC match.
 - Drafting a form letter instructing a customer how to apply to OFAC for a special license releasing blocked funds.

APPLY the plan throughout affected day-to-day operations:

- Has staff been adequately informed of the changes and properly trained?
 - What communications are being made to assure that sales, operations, BSA, and audit staff are aware of their new responsibilities?

January 15, 2009

- Have amended policies and procedures been distributed?
- Is staff training proceeding according to plan?
- Have ACH originating customers been identified and trained; are they prepared to populate the new IAT requirements?
 - What outreach is being undertaken to confirm that customers understand the IAT definition and are prepared to populate IATs with the required information.
 - Have amended ACH agreements been signed and returned?
- Institute system modifications for transmission and receipt of IAT transactions.

TEST to ensure that all systems and programs function as intended. Testing should include:

- Core processor, employee, third-party service providers, correspondent banks, and customers.
- After new systems are implemented, sample transactions to ensure that all people are acting in accordance with new procedures.
 - Verify staff understanding of new procedures.
 - Review records to confirm compliance with standards established.
 - Confirm that OFAC and BSA/AML monitoring is proceeding in accordance with expectations and modify as appropriate.