

Transaction-Level ACH Screening

A REGULATORY IMPERATIVE FOR US BANKS

U.S. REGULATORS REQUIRE FINANCIAL INSTITUTIONS TO SCREEN DOMESTIC ACH TRANSACTIONS FOR OFAC COMPLIANCE AT THE TRANSACTION LEVEL, NOT JUST THEIR CUSTOMERS. BECAUSE ENFORCEMENT IS STRICT-LIABILITY, RECENT CASES SHOW THAT EXCLUDING DOMESTIC ACH SCREENING CAN LEAD TO SIGNIFICANT FINES. TO PREVENT PROHIBITED PAYMENTS, BANKS MUST ADOPT RISK-BASED, TRANSACTION-LEVEL SCREENING OF ACH FILES.

Executive Summary

OCC, OFAC, the Federal Reserve, and FFIEC guidance clearly state that OFAC obligations apply to domestic ACH payments. All parties to ACH transactions, whether sent or received by a bank, must be screened for OFAC compliance. Just as with wire transfers, potential OFAC matches in ACH transactions must be reviewed, and the resolution of any matches must be documented.

Because OFAC enforces on a strict-liability basis, banks must stop prohibited transactions **before settlement**, and the Federal Reserve reiterates that all depository institutions, both originating and receiving, are responsible for compliance. Recent enforcement actions (e.g., TD Bank) show that failing to screen domestic ACH can trigger major penalties.

Crucially, **“daily customer screening” is not enough**: OFAC risk is transaction- and counterparty-based. Screening only your customers misses non-customer originators and receivers, and will not reliably identify prohibited entries in payment transactions. To meet regulatory expectations, banks must conduct **risk-based, transaction-level screening of ACH files** that covers all participants.

Why screening domestic ACH transaction is mandatory for U.S. financial institutions:

1) OCC Guidelines on ACH

The Office of the Comptroller of the Currency (OCC) guidance titled **Automated Clearing House Activities – Risk Management Guidance**, outlining risk management expectations for ACH activities. According to the OCC:

“The Bank Secrecy Act requires banks to have BSA/AML compliance programs and appropriate policies, procedures, and processes in place to monitor and identify unusual activity, including ACH transactions.”

The OCC makes a clear statement about financial institutions’ obligation to screen domestic ACH payments:

*“All parties to an ACH transaction are subject to the requirements of OFAC. **With respect to domestic ACH transactions**, the ODFI is responsible for verifying whether the originator is not a blocked party and for making a good faith effort to determine that the originator is not transmitting blocked funds. The RDFI similarly is responsible for verifying that the receiver is not a blocked party. ODFIs are not responsible for unbatching transactions if they receive those transactions already batched from their customers who have been placed on notice about their own responsibilities with regard to OFAC regulations. In such cases, ODFIs may rely on RDFIs for compliance with OFAC requirements with respect to blocking accounts and transactions on the RDFI's books. However, to the extent that unbatching occurs, the ODFI is responsible for screening as though it had done the initial batching. With respect to OFAC screening, these same obligations hold for cross-border ACH transactions. For outbound cross-border ACH transactions; however, the ODFI cannot rely on OFAC screening by the RDFI outside of the United States.”*

Board and Management Liability

*“Banks that participate in the ACH network, as well as their service providers, should have in place systems and controls to mitigate the risks associated with ACH activities. A strong risk management program begins with clearly defined objectives, a well-developed business strategy, and clear risk parameters. **Both the board of directors and management are responsible for ensuring that the ACH program does not expose the bank to excessive risk.** The board's role is to establish the bank's overall*

business strategy and risk limits for the ACH program and to oversee management's implementation of the program. Bank management is responsible for establishing effective risk management systems and controls and regularly reporting to the board on the results of the ACH program.”

For the full OCC guidance: [OCC Bulletin 2006-39](#)

2) FFIEC BSA/AML Examination Manual

The FFIEC BSA/AML Examination Manual further reinforces OFAC’s position: “OFAC has clarified its interpretation of the application of its rules for domestic and cross-border ACH transactions and provided more detailed guidance on cross-border ACH.

With respect to domestic ACH transactions, the ODFI is responsible for verifying that the Originator is not a blocked party and making a good faith effort to ascertain that the Originator is not transmitting blocked funds. The RDFI similarly is responsible for verifying that the Receiver is not a blocked party. In this way, the ODFI and the RDFI are relying on each other for compliance with OFAC regulations.

If an ODFI receives domestic ACH transactions that its customer has already batched, the ODFI is not responsible for unbatching those transactions to ensure that no transactions violate OFAC's regulations. If an ODFI unbatches a file originally received from the Originator in order to process ‘on-us’ transactions, that ODFI is responsible for the OFAC compliance for the on-us transactions because it is acting as both the ODFI and the RDFI for those transactions.

Full reference: [FFIEC BSA/AML Manual – ACH Transactions Overview](#)

ACH transactions frequently involve high volumes and multiple entries, and traditional OFAC screening methods often generate a high number of false positives, making it difficult to screen each transaction, increasing workload and payment processing time, and leading to operational inefficiencies. Nevertheless, financial institutions that fail to screen or that intentionally do not screen domestic and international ACH transactions put themselves in a serious compliance risk.

3) The Federal Reserve

OFAC generally interpret the term “financial transaction” broadly to encompass any transfer of value involving a financial institution and specifically includes the receipt or origination of ACH as an example (see OFAC [FAQ 542](#)).

The Federal Reserve further emphasizes OFAC interpretation and clearly states that:
“OFAC rules apply to all payments, both domestic and international.”

It also emphasizes the **shared responsibility** of depository institutions:

“All depository financial institutions, whether originating or receiving, are responsible for OFAC compliance. Likewise, OFAC compliance applies to third-party service providers, including processors and correspondent/respondent banks. Although a financial institution might contract with a third-party provider to do the actual OFAC review of the transactions, OFAC rules clearly indicate that a financial institution cannot contract away its liability for OFAC compliance.”

For more information, refer to: [Federal Reserve ACH FAQs](#)

4) TD Bank Case Study

The recent **\$3.09 billion enforcement against TD Bank** illustrates why U.S. banks must screen domestic ACH transactions for AML and OFAC compliance. Regulators discovered that TD Bank intentionally excluded domestic ACH transactions from monitoring, leaving trillions of US Dollars in payments unreviewed and exposing the bank to systemic risk. According to the US Justice Department:

“Throughout this time, TD Bank intentionally excluded all domestic automated clearinghouse (ACH) transactions,..”

These failures enabled three money laundering networks to collectively transfer more than **\$670 million** through TD Bank accounts between 2019 and 2023.

This case makes clear that **transaction-level screening of ACH files is not optional**—it is a regulatory requirement, and failure to comply can trigger record-setting penalties.

Case reference: [United States v. TD Bank U.S. Holding Company](#)

Why Daily screening of customers Is not sufficient by itself

- I. **OFAC risk is transaction and counterparty based, not just customer based.**
Screening only your customers misses non-customer originators and receivers in ACH entries routed through your institution.
- II. **ACH exposes banks to non-customer risk.** In the ACH model (Originator → ODFI → ACH Operator → RDFI → Receiver), both ODFIs and RDFIs face sanctions risk.
- III. **Industry guidance confirms shared responsibility.** ODFIs and RDFIs must prevent OFAC violations in ACH processing, including when files are unbatched or contain “on-us” items.
- IV. **Obligations arise whenever a prohibited party is in the payment - even if not your customer.** Blocking/rejection and reporting duties are only triggered by applying transaction-level screening.
- V. **Timely interdiction is required.** OFAC stresses that transactions must be screened before completion. Daily customer screening cannot stop prohibited ACH entries in time.
- VI. **Risk-based screening is the baseline expectation.** OFAC’s compliance framework requires internal controls aligned to products and payment channels, including transaction-level screening of participants and fields such as names, addresses, and countries.

Summary

Daily customer screening alone will not capture non-customer parties involved in ACH transactions and cannot reliably block or report prohibited entries. Financial institutions ACH compliance programs must apply risk-based, **transaction-level sanctions screening across ACH files**, including both **domestic and international** transactions, ensuring that any entry involving a sanctioned party is identified, blocked or rejected, and reported as required by OFAC.

Fincom Screening Solution for ACH Payments

Fincom’s advanced screening solution enabling financial institutions to overcome the operational burdens and lengthy manual processes of ACH transactions’ OFAC checks. Fincom’s solution delivers unmatched accuracy and speed by screening large ACH files in minutes, leveraging sophisticated alert suppression mechanisms to significantly reduce the number of alerts and cut alert rates from 30-50% to below 0.5%.

The solution provides **Insightful case resolution screen** through which, alerted ACH files entries are presented in their original structure, enabling investigators to quickly identify and review flagged transactions directly within the transaction records. Associated alert information from sanction lists provided to allow fast and easy case resolution and decisioning.

Learn how Fincom can help your institution ensure its [ACH payments OFAC compliance](#).

References:

- 1) [OCC Bulletin 2006-39](#)
- 2) [FFIEC BSA/AML Manual – ACH Transactions Overview](#)
- 3) [OFAC FAQ 542](#)
- 4) [Federal Reserve ACH FAQs](#)
- 5) [United States v. TD Bank U.S. Holding Company](#)