

International ACH Transactions (IAT)

What is the ACH?



- The Automated Clearing House is a payment mechanism that began in the early 1970s. It is used to transfer funds among financial institutions and their customers in a fast, inexpensive, and reliable method in a private and secure electronic network.
- The electronic network - at the center of this process – provides a credit and debit transaction process that is used by millions of consumers, businesses, and governments.
- The most well-known transaction traveling the ACH is Direct Deposit.

Current State with International Transactions



- Today, many international ACH payments are classified as domestic transactions because they enter the U.S. through correspondent banking relationships or bank proprietary systems. They are identified with the Standard Entry Class (SEC) Codes CCD or PPD. This makes it difficult to distinguish them and comply with OFAC sanctions.
- NACHA is introducing a new Standard Entry Class (SEC) Code “International ACH Transactions” (IAT).
- This will allow for Financial Institutions to monitor and implement appropriate measures to comply with OFAC (Office of Foreign Assets Control) .
- Scheduled implementation for IAT is **September 18, 2009**

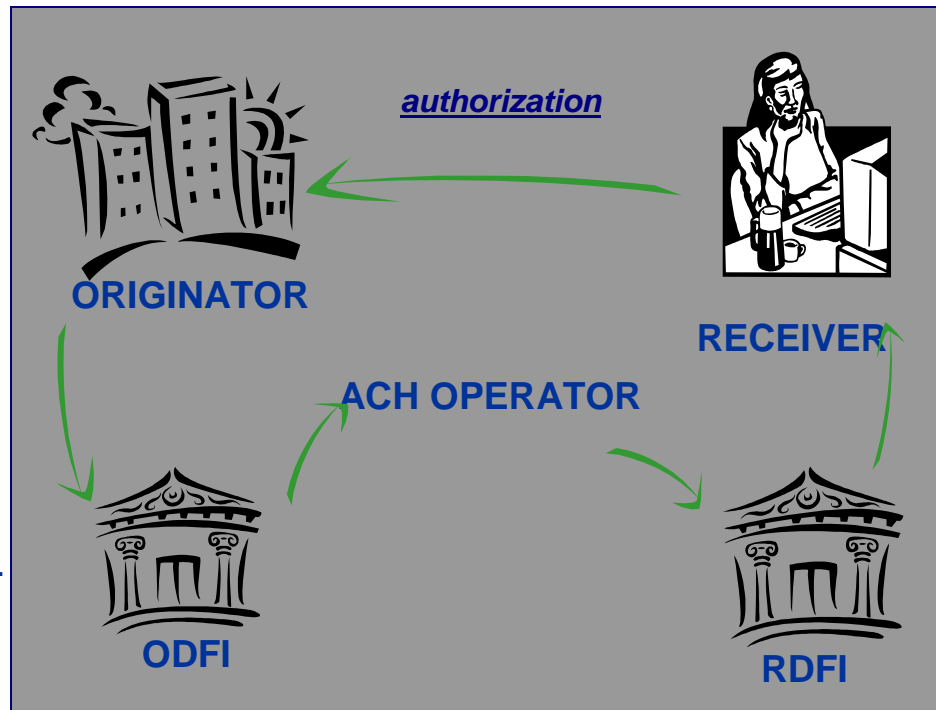
Defining the ACH Participants



There are five key players involved in every ACH transaction:

1> ORIGINATOR

The business, company, organization or individual - that initiates an ACH transaction and has obtained authorization from the Receiver (account holder).



5> RECEIVER

The account holder (business, company, organization, or individual) receiving the transaction and who has previously authorized the Originator to debit or credit their account.

2> ORIGINATING DEPOSITORY FINANCIAL INSTITUTION (ODFI)

The institution that agrees to put the transactions into the Network on behalf of the Originator. Performs OFAC check before releasing the payment to the Federal Reserve.

3> ACH OPERATOR

Federal Reserve Banks are the providers of clearing, delivery, and settlement of ACH transactions (Performs the OFAC check prior to releasing the payment to RDFI).

4> RECEIVING DEPOSITORY FINANCIAL INSTITUTION (RDFI)

The institution that receives transactions on behalf of a Receiver (account holder). Performs OFAC check before releasing the payment to the Receiver.



International Payment Definitions



What are International Payments?

- International payments are credit and debit payment instructions exchanged across national borders to transfer value between an Originator (sender) and a Receiver (beneficiary).

What is International ACH?

- International ACH is a payment and collection process that leverages in country clearing systems. International ACH provides a cost effective method for corporate clients to make payments such as:
 - Payroll
 - Accounts payable
 - Dividends
 - Expense reimbursement
 - Pay or Receive payments from Vendor and/or Customers

Definition of International ACH Transactions (IAT)



- International ACH Transactions – an ACH entry that is part of a payment transaction involving a financial agency’s office that is not located in the territorial jurisdiction of the United States (The territorial jurisdiction of the United States includes all 50 states, U.S. territories, U.S. Military bases and U.S. embassies in foreign countries).
 - A financial agency’s office is involved in the payment transaction if it –
 - holds an account that is credited or debited as part of the payment transaction;
 - receives funds directly from a person or makes a payment directly to a person as part of the payment transaction; or
 - serves as an **intermediary in the settlement** of the payment transaction.
 - Financial agency means an entity that is authorized by applicable law to accept deposits or is in the business of issuing money orders or transferring funds.

Location of the originator and/or beneficiary is not considered in the identification of an IAT transaction. However, the location of the financial institution receiving or originating is an identification of an IAT transaction.

What are the reasons to introduce IAT?



- U.S. law prohibits trade or financial transactions with targeted foreign countries and individuals such as terrorists and narcotics traffickers. The sanctions are enforced by the U.S. Treasury Department's Office of Foreign Assets Control (OFAC).
- OFAC has concerns because of the speed and efficiency of the ACH Network that it is vulnerable to abuse with respect to international movement of funds.
- Insufficient information contained in current ACH formats to adequately identify the parties to the transaction and to identify them as international in origination.

IAT Outbound and Inbound Terms



Inbound Entry - an entry that originates in another country and is transmitted to the United States.

- This could be the funding for a company payroll.

Outbound Entry - an entry that originates in the United States and is transmitted to another country.

- IAT pension payments going from a United States Originating Depository Financial Institution (ODFI) and the funds are being transferred to an account at a financial institution in another country would be considered Outbound IAT entries.

Corporate Originator Checklist



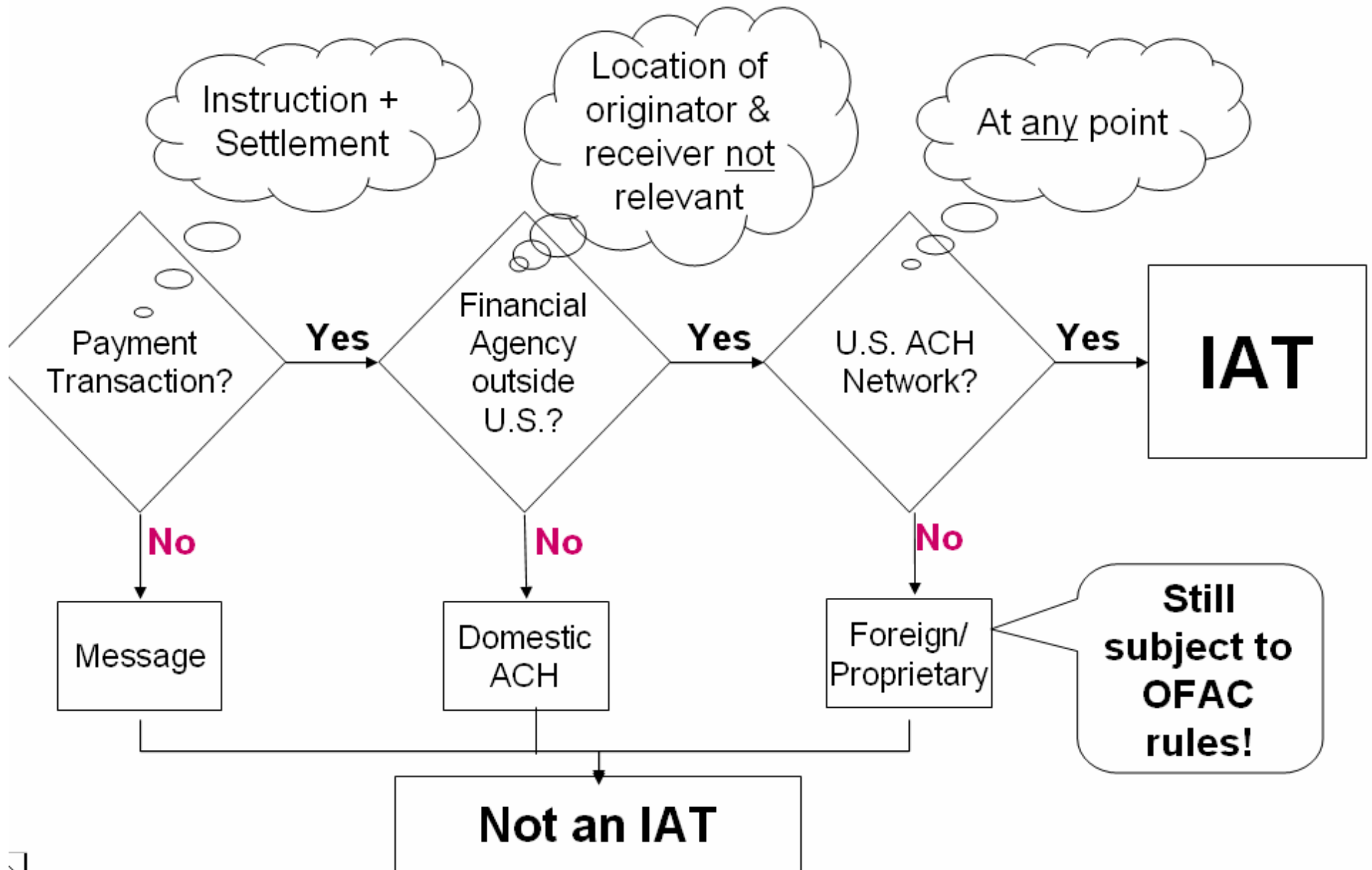
- Understand the new rules related to IAT
- Review IAT scenarios
- Discuss with system vendors (i.e., Account Payable application or Payroll Services, if your payroll is outsourced) to understand compatibility
- Review existing vendor, employee and pension payments for possible IAT applications
- Schedule a test with UMB Bank or vendors

Key Points for Consideration



- Customer must complete the acknowledgement form on umb.com or e-mail IAT@umb.com
 - If we don't receive the acknowledgement form we will block the IAT transaction type for the customer.
- Upon receipt of the acknowledgement form:
 - We will follow-up within 48-72 hours
 - Educate and/or answer any questions
 - Schedule training
 - Mail the updated ACH Terms and Conditions

Is My Transaction an IAT?



IAT Resources Page



http://www.nacha.org/IAT_Industry_Information/ ‡

The above URL directs you to NACHA's Web page where the following information can be found:

- IAT Corporate Tool Kit
- IAT Readiness
- FAQs
- Technical Standards and Mapping

If you have additional questions about IAT, please e-mail us at IAT@umb.com.

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