

Journey with the IAT



Agenda

- Challenges of International Payments
- What is an IAT?
- Strategies to Consider
- Operational Challenges
- Compliance Challenges

Challenges of International Payments

- no Global or International ACH Operator currently exists;
- no internationally utilized standard for batch processing is available;
- no common set of rules exists;
- no international counterpart to the U.S. prenotification process is available;
- settlement times vary by country;
- different formats exist for account numbers and bank routing numbers;
- holiday schedules vary by country;
- reversals are not allowed in many countries;
- debit rules vary by country;
- some clearing systems have local language requirements; and
- local currency is required for domestic payment systems

What is an IAT?

- An IAT transaction is an International ACH Transaction.
 - It's a special type of ACH entry defined by NACHA rules that is used when any part of the payment—either the originator, the receiver, or the financial institution involved, is located outside the United States.

Key Points of an IAT

- **Purpose:** To handle cross-border payments.
- **Identification:** The Standard Entry Class (SEC) code “IAT” is used to flag it as international.
- **Required Information:** Must include detailed data for OFAC compliance—such as the foreign bank name, foreign address, and country codes—so payments can be screened against U.S. sanctions lists.
- **Currency:** Funds may be in U.S. dollars or foreign currency, depending on the arrangement.

Examples of an IAT

- U.S. company paying a vendor in Mexico via ACH.
- A bank in the U.S. sending payroll to employees working overseas.
- U.S. individual receiving an ACH payment from an account in Canada.
- Social Security Administration sending retirement payments to U.S. Citizens in other countries.

Benefits of IAT

- Benefits of international ACH transactions are the same as domestic ACH payments in terms of safety, reliability, and security. In addition, international ACH transactions also benefit users through:
 - a reduction in funds movement costs;
 - more predictable cash flow;
 - a reduction in the need to maintain multiple bank relationships globally; and
 - settlement on a specified value date.

IAT =

**Payment
Transaction**
(Instruction +
Settlement)

+

Financial Agency
(Outside the
Territorial
Jurisdiction of the
United States)

+

U.S. ACH Network
Use of the IAT SEC
code is required IF
the transactions
flow through the
U.S. ACH Network at
some point

1. U.S. Originator

- Initiates payment instruction with their **Originating Depository Financial Institution (ODFI)** in the U.S.
- Provides **all required IAT data** (foreign bank name, foreign address, country code, etc.) for OFAC compliance.

2. U.S. ODFI

- Formats the ACH entry using **SEC Code: IAT**.
- Screens the transaction against **OFAC's SDN list** and other compliance filters.
- Sends the entry into the **ACH Operator** (FedACH or The Clearing House).

3. ACH Operator

- Processes the IAT entry and delivers it to the **Foreign Gateway Operator** for outbound payments.
- May pass through additional compliance checks.

4. Foreign Gateway Operator

- Acts as the link between the U.S. ACH network and the foreign payment system.
- Converts currency if needed.
- Passes the payment into the **foreign clearing system**.

Out of U.S.

5. Foreign Bank

- Receives the payment in local currency or USD.
- Posts funds to the **Receiver's account** in the foreign country.

6. Receiver

- Gets funds available based on the rules of the **foreign clearing system**.

1. Foreign Originator

- Initiates payment instruction with their **Originating Depository Financial Institution (ODFI)** in the U.S.
- Provides **all required IAT data** (foreign bank name, foreign address, country code, etc.) for OFAC compliance.

2. Foreign ODFI (U.S. Bank)

- Formats the ACH entry using **SEC Code: IAT**.
- Screens the transaction against **OFAC's SDN list** and other compliance filters.
- Sends the entry into the **ACH Operator** (FedACH or The Clearing House).

3. Foreign Gateway Operator / Correspondent Bank

- Acts as the link between the foreign payment system and the U.S. ACH network
- Converts currency if needed.
- Passes the payment into the U.S. ACH Network

4. U.S. ACH Operator / U/S. Gateway Operator

- Processes the IAT entry and delivers it to the **Receiving Depository Financial Institution (RDFI)** in the U.S. (for inbound payments)
- May pass through additional compliance checks.
- Converts currency if needed.

Into U.S.

5. U.S. RDFI

- Receives the payment in local currency or USD.
- Posts funds to the **Receiver's account** in the foreign country.

6. Receiver

- Gets funds available based on the rules of the **foreign clearing system**.

Strategies to Consider

- Strengthen Compliance Controls
 - Automated OFAC Screening
 - Mandatory Data Validation

Strategies to Consider

- Optimize Operational Workflows
 - Designate an IAT Specialist or Team
 - Standardized Procedures

Strategies to Consider

- Leverage Technology for Accuracy
 - Pre-Validation Tools
 - Currency Rate Lock Features

Strategies to Consider

- Manage Costs Proactively
 - Negotiate with Gateway Banks
 - Batch Processing

Strategies to Consider

- Enhance Training & Awareness
 - Cross-Border Payment Education
 - Scenario-Based Training

Strategies to Consider

- Monitor and Audit Regularly
 - Exception Tracking
 - Annual Policy Reviews

Operational Challenges

- Compliance & OFAC Screening
 - IAT rules require *full data capture* on all parties involved (originator, receiver, banks).
 - Missing or incorrect data can cause delays or rejections.
 - Increased workload for manual review when transactions hit potential sanctions matches.

Operational Challenges

- Data Formatting & System Limitations
 - U.S. ACH format differs from many foreign payment formats—mapping fields correctly can be tricky.
 - Some core banking or payment systems aren't designed to handle all required IAT addenda records.

Operational Challenges

- Processing Delays
 - Unlike domestic ACH (which is often same-day or next-day), IATs involve foreign clearing systems that may add 1–5 days to settlement.
 - Time zone differences further slow exception resolution.

Operational Challenges

- Currency Conversion Issues
 - . Exchange rates may fluctuate between initiation and settlement.
 - . Additional reconciliation work is required to match USD amounts in reports with foreign currency credits.

Operational Challenges

- Higher Error & Return Risk
 - Incorrect foreign account numbers or SWIFT/BIC codes lead to higher return rates.
 - Return reason codes for IATs may require specialized handling compared to domestic ACH returns.

Operational Challenges

- Cost Management
 - IATs often involve higher processing fees due to gateway banks, correspondent banks, and compliance screening costs.
 - Tracking and allocating these costs internally can be complex.

Operational Challenges

- Training & Knowledge Gaps
 - Staff must be trained not only on NACHA rules but also on cross-border payment regulations for multiple countries.
 - Frequent rule changes require ongoing education.

Compliance Challenges

- OFAC & Sanctions Screening
 - All parties must be screened (Originator, Receiver, and every financial institutions in the payment chain)
 - May have higher false positives due to foreign names, transliterations, and spelling variations
 - Delays if potential matches require manual review and escalation

Compliance Challenges

- Required Data
 - Nacha rules require full Originator and Receiver addresses, financial institution names, and country codes
 - Missing or incomplete fields may trigger rejections

Compliance Challenges

- Multiple Jurisdiction Compliance
 - Must comply with U.S. laws **AND** the destination country's payment regulations
 - Some countries have data localization or reporting requirements that conflict with U.S. rules.

Compliance Challenges

- Foreign Bank & Intermediary Risk
 - U.S. institutions are responsible for ensuring gateways also comply with sanctions and AML rules.
 - Complex to monitor correspondent banks in high-risk jurisdictions.

Compliance Challenges

- Currency & AML Concerns
 - Currency conversions create opportunities for misreporting or value manipulations
 - Foreign exchange transaction may be subject to additional anti-money laundering checks.

Compliance Challenges

- Recordkeeping Requirements
 - Nacha requires financial institutions to retain a Record of each Entry for six years from the date the Entry was Transmitted
 - Must also maintain evidence of screening, approvals, and exception handling for audit.

Compliance Challenges

- Staff Training Gaps
 - Many ACH processors are familiar with domestic ACH but not IAT-specific rules.
 - Insufficient training can lead to accidental non-compliance.

Final Thoughts

- In Payments, there are two views
 - Credit Union
 - Different payment rails each with different pricing
 - Member
 - Want to receive payments or send payments
 - Don't care about the "rail"
 - "I just want the payment to go when & where it needs to go"

Questions

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