

Webinar for Software Providers on Upcoming Changes in Cross-border ACH



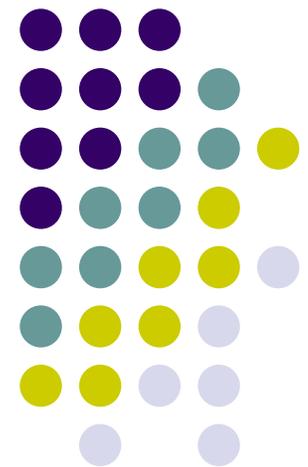
Federal Reserve Banks

John Morris & Elena Whisler

NACHA

Priscilla Holland

14 January 2008

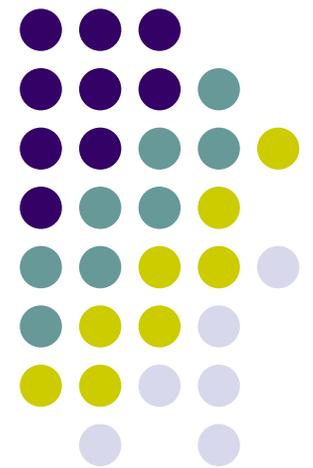


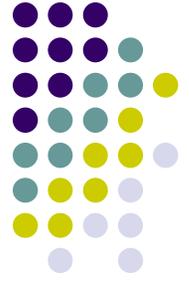
Agenda



- Introduction..... Elena Whisler
- Rules changes & OFAC requirements..... Priscilla Holland
- Scope of IAT changes..... John Morris
- Key features of IAT..... John Morris
- FedACH International Services future expansion... Elena Whisler

Introduction

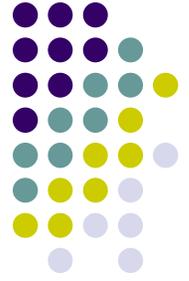




Purpose

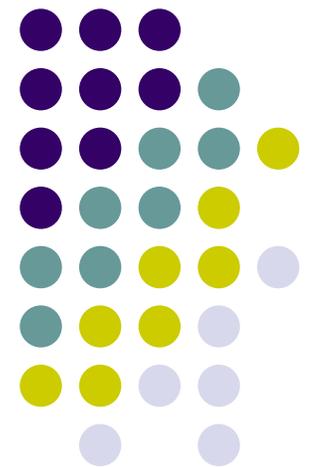
- Increase awareness of upcoming changes in cross-border ACH among software providers
 - Many unknowns first time around
 - Several lessons learned
 - Changes only 14 months away
 - Wide-reaching impact to both originators and receivers
 - Bi-directional payments with IAT

Cross-border survey



- Recent Federal Reserve Financial Services cross-border ACH survey results
 - 69% of 554 respondents saw need in own organization for cross-border payments
 - 41% expect 15–25% annual growth in cross-border ACH market
 - Adoption of new NACHA cross-border rules and format seen as major driver of growth
 - 81% believe that account-to-account cross-border ACH consumer products are important
 - Certainty of payment delivery most important attribute for cross-border payments product

Rule Changes and OFAC Requirements



Changes to International ACH payments



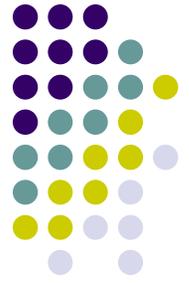
- Primary purposes
 - Respond to OFAC's request to align the *rules* with OFAC compliance obligations
 - Make it easier for DFIs to comply with those obligations

Definition of International ACH Transaction



- *International ACH Transaction* – 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
 - An office of a financial agency is involved in the payment transaction if it –
 1. Holds an account that is credited or debited as part of the payment transaction, or
 2. Receives funds directly from a Person or makes payment directly to a Person as part of the payment transaction, or
 3. 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

Payment transaction guidance

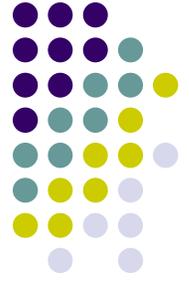


- Payment transaction
 - 1) An instruction of a sender to a bank to pay, or to obtain payment of, or to cause another bank to pay or to obtain payment of, a fixed or determinate amount of money that is to be paid to, or obtained from, a receiver, and
 - 2) Any and all settlements, accounting entries or disbursements that are necessary or appropriate to carry out the instruction

Identification of IAT parties



- Defines new parties as part of IAT entry
 - Correspondent bank – A participating DFI that holds deposits owned by other financial institutions and provides payment and other services to those financial institutions
 - Foreign gateway operator (FGO) – A gateway operator that acts as an entry point to or exit point from a foreign country



Identification of IAT parties

- Re-defines “gateway operator” as the entry point to or exit point from the U.S.
 - Removes current requirement for formal declaration of gateway operator status
 - Can be any ODFI or ACH operator
 - Adds new obligations for gateway operators

Article 11 – Obligations of gateway operators



- Warranties for IAT entries
- Rules for agreements with FGOs, ODFIs, authorization to transmit credit entries, OFAC compliance
- ACH operators acting as gateway operators may process outbound debit and credit entries but must limit inbound IAT entries to credits only (Reversing debits permitted)
- DFIs acting as a gateway operator may process both inbound and outbound debits *and* credits



“Travel rule” information

- Name and physical address of the originator
- Name and physical address of the beneficiary
- Originating bank name, identification number & branch country code
- Intermediary bank name, identification number & branch country code
- Receiving bank name, identification number & branch country code



Reason for payment

- OFAC requested that the reason for payment be included in IAT payment transactions
- Reason for payment is currently included in the CBR/PBR transactions
- Reason for payment is a three-digit code included in the transaction type code field with pre-defined codes
 - Examples:
 - ANN – Annuity
 - BUS – Business/Commercial
 - DEP – Deposit
 - PEN – Pension



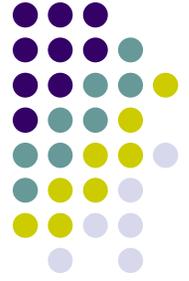
Transaction type codes

- Expanded the use of the transaction type code field for inbound IAT transactions to carry a secondary SEC code for WEB, TEL, ARC, POP, BOC and RCK
- If ARC, BOC or RCK codes are listed, a NACHA banking convention has been developed to carry the check serial number
- For POP, the terminal city and terminal state in the payment-related information of the remittance addenda record



OFAC compliance

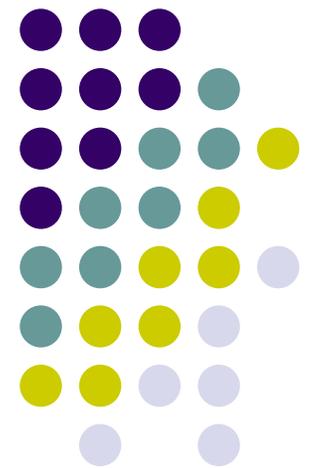
- All financial institutions are responsible for OFAC compliance
- If a financial institution contracts with a third-party provider to do the actual OFAC review of the transactions, OFAC is clear that a financial institution cannot contract away its liability for OFAC compliance



OFAC compliance for IAT

- Financial institutions should have a written OFAC compliance policy
- Inbound transactions
 - Review of all parties to the transaction, remittance data and correspondent banks
- Outbound transactions
 - Review of all parties to the transactions and remittance data

Scope of IAT Changes

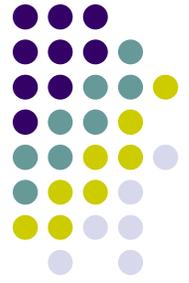


All ACH participants must apply changes associated with IAT...



- Originators
- ODFIs
- Correspondents
- Gateway operators
- RDFIs
- Receivers

Who will need to make changes?



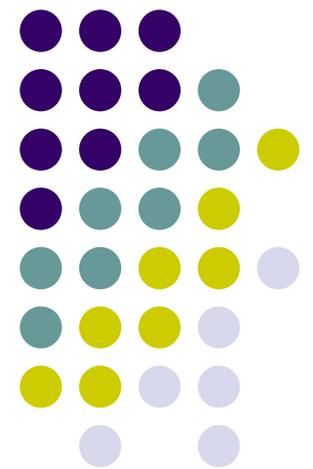
- Front lobby
 - More data required for originators and receivers
 - Update transaction forms
 - Educate staff and customers
- Operations
 - ACH software
 - Backroom processing & screening
 - Data archive
- Compliance
 - Reporting
 - Update policies, practices & procedures

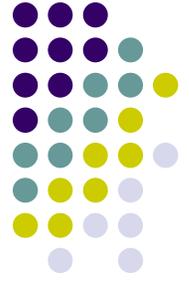
Gateway vs ACH operator edits



- FedACH will process IAT as both gateway operator and ACH operator
 - As a gateway operator
 - Acts as exit or entry point for IAT items
 - Processes IAT items and applies gateway operator (“international”) edits
 - OFAC screening on inbound items
 - As an ACH operator
 - Processes IAT items along with other SEC codes and applies ACH operator (“domestic”) edits
 - No requirement for OFAC screening

Key Features of IAT

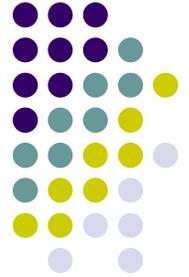




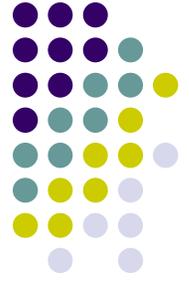
Application of IAT format

- IAT implementation – 20 March 2009
 - Forward CBR/PBR transactions discontinued
 - New SEC code for international ACH transactions will be IAT for both consumer and corporate transactions
 - CBR/PBR returns permitted until 18 Sept 2009
- Completely new format
 - Use of multiple addenda records
- Forward origination and receipt
 - IAT format required for ACH transactions sent through the US ACH

Batch header record changes



- New IAT indicator field (Field 3)
 - Use of IATCOR with NOCs
- Company name moved to second IAT addenda record



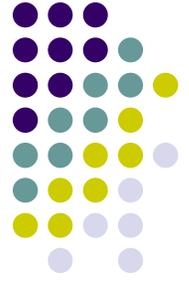
Entry detail record changes

- Three new fields added
 - Number of addenda records (Field 5)
 - Must be changed each time an IAT addenda record for correspondent bank information is added to the entry
 - Gateway operator OFAC screening indicator (Field 10)
 - “0” no match for blocked party
 - “1” match for blocked party
 - Secondary OFAC screening indicator (Field 11)
 - New product opportunity for service providers
- Individual name / Receiving company name moved to first IAT addenda record

Addenda record changes

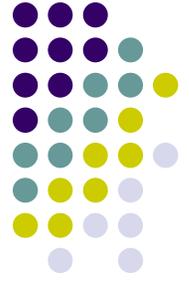


- Addenda records identified by addenda type code (Max of 12)
- Use of seven mandatory records to identify transaction parties and financial institutions
 - Coincides with “travel rule” data requirements
- Up to five optional addenda records can be used
 - Optional remittance information record (Max of two)
 - Correspondent bank information record
 - Number of addenda records (Field 5 – Entry detail record) must be updated as correspondent bank information is added



Returns and NOCs

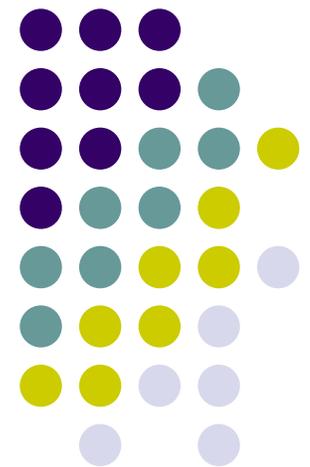
- Returns
 - All mandatory forward addenda records must be included with returns
 - Must also contain Addenda type code 99 – Eighth addenda record to provide return reason code and original tracing information
 - Dishonored / Contested dishonored returns not supported
- NOCs
 - IAT indicator (Field 3 – Batch header record) must contain “IATCOR”
 - Only one addenda record used
 - Refused NOCs no longer supported



Coding considerations

- Suggested flexibility with field choices
 - Strike balance between selections and edits
 - Use of drop lists and data entry fields
 - ISO currency and country codes
 - Return reason codes
 - Transaction type codes
 - Correspondent bank information
- Templates and default field values
 - User managed
- Logic for recalculation of addenda record count

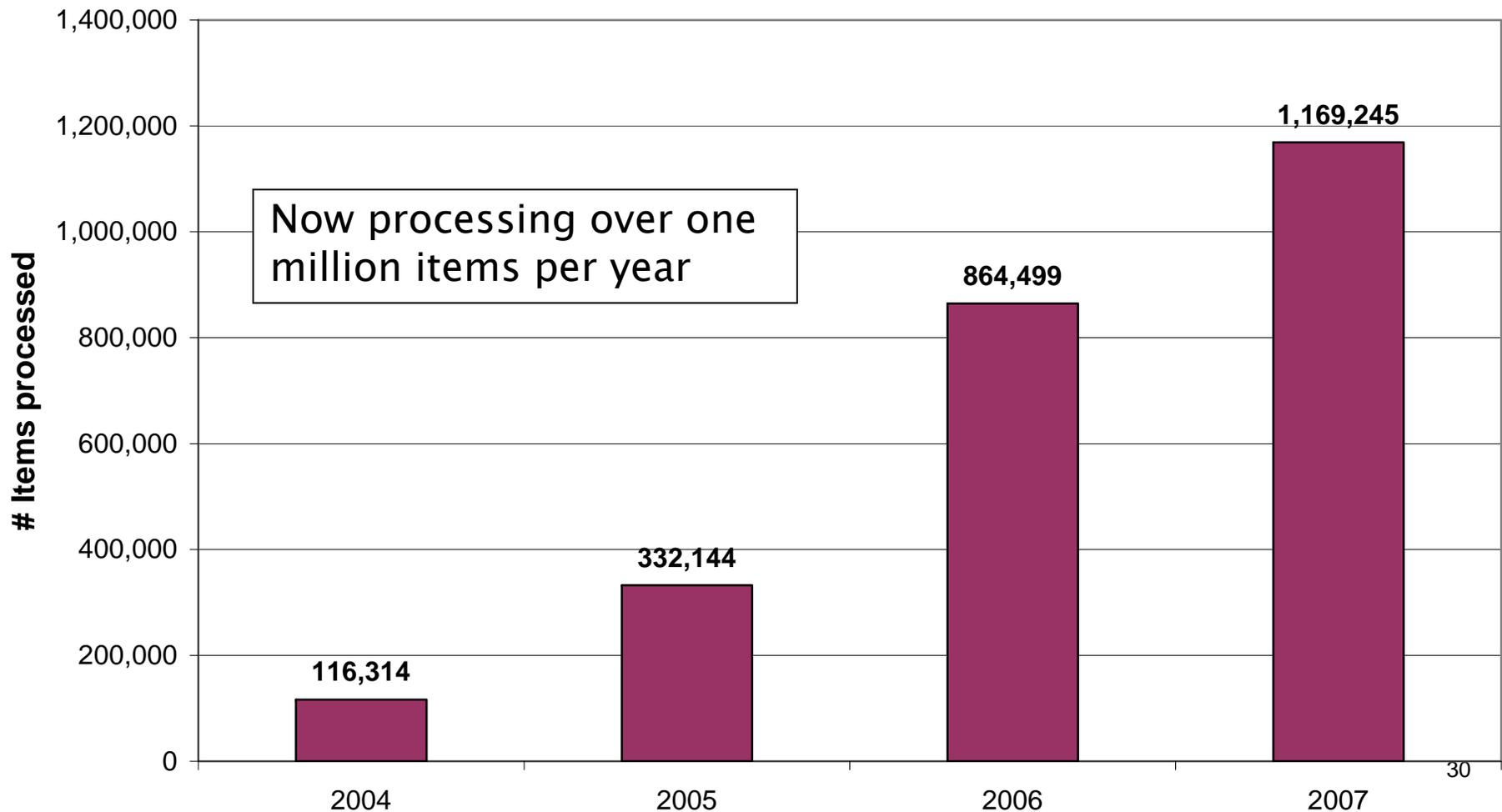
FedACH International Future Expansion



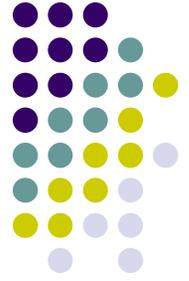
FedACH International growth Jan 04 - Dec 07



Total annual volume
All services (govt. & commercial)

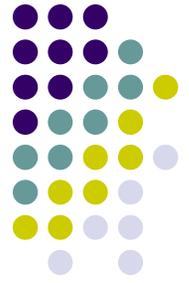


FedACH International is changing too



- IAT SEC code implementation
 - Edit FedACH application
 - Bi-directional payments
 - Target implementation May 2009
 - Add OFAC screening to FedACH International processing for inbound items
- Planning for new country and service expansion underway

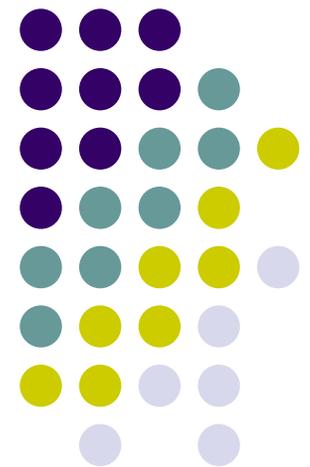
FedACH International – On the horizon



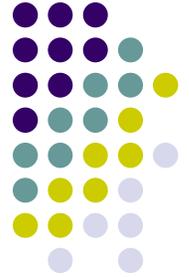
- Studying broader functionality
 - Fixed to fixed to more currencies/countries?
 - Variable to fixed?
 - Account to mobile? Account to cash?
- Studying service to more countries
 - More European destinations, some Asia, India?
 - Central America, South America?
- Fed IAT survey at NACHA Payments Conference
 - To gauge industry preparedness for IAT
- Look for announcements later in the year on new countries and other service features

Discussion

20 March 2009 is only
430 days away!



Contact information



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