

Transparency: Seeing through International ACH

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There are anecdotal reports that some financial institutions are treating their preparatory efforts for the new [international ACH transaction \(IAT\)](#) rule and format like a Y2K event. However, they shouldn't lose sight of the fact that the industry stands to reap substantial benefits from the new rule, largely because of improved transparency in the ACH network. As you may be aware, the new IAT rule and format go into effect on Sept. 18, 2009. NACHA, the rulemaking body for the ACH network, has conducted extensive industry outreach to provide education on the new rule and format.

In many respects, the change in the international ACH transaction format is attributable to the [Office of Foreign Assets Control \(OFAC\)](#). OFAC administers and enforces economic and trade sanctions in accordance with U.S. foreign policy and national security goals against targeted foreign entities such as international drug traffickers, terrorists, and other threats. Beginning in the late 1990s, OFAC began to have concerns about abuses from terrorists in cross-border ACH transactions. OFAC had reason to believe that we needed better safeguards for our financial system, especially after 9/11. The ACH network today is increasingly vulnerable to potential abuse with respect to the international cross-border movement of funds because of the expanded use of the ACH for one-off transactions from the practice of recurring transactions between known and trusted parties, as well as the speed and efficiency of the ACH network in general.

To address their concerns, OFAC worked with NACHA to construct a payment format that would permit sufficient information to identify parties to the cross-border transaction. In 2004 NACHA began working with OFAC on a proposed rule change for international ACH transactions and a new format that would include the data elements from the Bank Secrecy Act's (BSA) "[travel rule](#)." Essentially, the BSA travel rule includes more robust information about the payment originator and beneficiary so that a financial institution can review the transaction for OFAC compliance. When the IAT rule goes into effect, all transactions that meet the new definition of international ACH transactions made via the ACH Network will be required to use the IAT SEC code.

The IAT code will make it easier for financial institutions to identify international payments in the ACH network since currently many transactions are mistakenly coded as domestic. This mistake occurs because today many international payments are introduced into the U.S. ACH network through domestic correspondent relationships and are then inadvertently transmitted as domestic transactions. So the new code will make it easier for financial institutions to identify these payments and comply with their OFAC obligations, which incidentally, have not changed. IAT really creates more transparency in two significant ways: by identifying the transaction as international and by revealing all parties to the cross-border transaction. In the end, transparency in retail payment systems is a good thing and should help the banking industry combat fraud and other abuses in the

ACH network.

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