Inbound IAT Debit Processing
Recommendations and Guidance for Gateway Operators and RDFIs

(Replaces previous guidance, effective March 5, 2009)

NACHA has developed recommendations and guidance for Gateway Operators and RDFIs for processing inbound IAT debits in accordance with OFAC requirements. This guidance, which was originally issued in December 2008, was in response to a number of requests that NACHA received from ACH Network participants that are considering how they will handle such debits, and that wish to do so in a manner that is as automated as possible.

OFAC's original expectations were that a debit involving a blocked party would be processed to the beneficiary's account at the RDFI, the funds would be debited and held in an interest bearing account in the name of the blocked party, and the offsetting credit to the foreign originator would not be processed. However, on March 5, 2009, OFAC informed NACHA that it is revising its requirements and expectations regarding the handing of inbound IAT debits. As a result, NACHA's previous guidance on processing inbound IAT debits, which was designed to meet OFAC's original expectations, is no longer valid and has been replaced with the guidance detailed below.

EXECUTIVE SUMMARY

Inbound IAT debit transactions are debits that are being originated into the U.S. ACH Network by U.S. financial institutions acting as Gateway Operators. *Inbound IAT debit transactions will not be processed through the FedACH International Service.*

NACHA strongly encourages financial institutions that are considering serving as Gateway Operators to thoroughly understand OFAC requirements, transaction risks, and operational issues for various processing scenarios. Financial institutions should have well-thought-out business plans and should thoroughly understand the implications and responsibilities of implementing IAT debit transactions.

The recommendations and guidance contained within this document reflect the expectations of OFAC – they are not requirements of the *NACHA Operating Rules*. Financial institutions can always contact OFAC for guidance whenever appropriate.

ROLE OF A GATEWAY OPERATOR

With the adoption of the IAT rules, a "Gateway Operator" is a newly defined party in the *NACHA Operating Rules*. A Gateway Operator is defined as the entry point to or exit point from the United States for ACH payment transactions. Article Eleven of the *NACHA Operating Rules* contain the Obligations of Gateway Operators. The Gateway Operator also assumes the specific responsibilities and warranties of an ODFI (for Inbound IAT Entries) or an RDFI (for Outbound IAT Entries), pursuant to Article Two or Article Four, respectively, under the IAT rules.

While a Gateway Operator is also, by definition, the ODFI for an inbound IAT debit, the recommendations here are intended to address the financial institution's role as a Gateway Operator. Nothing here should be construed to apply to ODFIs for any transactions other than inbound IAT debits.

A participating DFI that chooses to process inbound IAT debits should understand OFAC's requirements and transaction risk, and should consider adopting practices such as those outlined within this document to address how it will process the debits under various scenarios.

REVISED OFAC REQUIREMENTS RELATED TO INBOUND IAT DEBITS

Under OFAC's revised requirements, a Gateway Operator that identifies the presence of a blocked party in an inbound IAT debit should cease processing the entry, and should take several additional steps to report the hit to OFAC, the Foreign Gateway Operator, and the RDFI.

OFAC further expects that Gateway Operators' notifications to RDFIs about OFAC hits will eventually take place through the ACH Network. NACHA will issue additional guidance when methods and procedures for these notifications are established.

Gateway Operator (ODFI) Responsibilities for Inbound IAT Debit Transactions

A financial institution acting as a Gateway Operator (ODFI) for Inbound IAT debits should:

1. Review all Inbound IAT debits for OFAC compliance, including all parties to the transaction and all remittance data;
2. Segregate any suspect transactions into an OFAC review module or queue;
3. Populate the Gateway Operator OFAC Screening Indicator (Field 10, IAT Entry Detail Record) for clean transactions with "0." (NOTE: This field is Optional under the *NACHA Operating Rules*, but its use is strongly encouraged);
4. Rebalance original batch and file, if necessary, and send to ACH Operator (see section below on Gateway Operator Procedures for Rebalancing a Batch and File);

5. Investigate suspect transactions:
   a. For a suspect transaction **cleared** by the investigation:
      i. Populate the Gateway Operator OFAC Screening Indicator (Field 10, IAT Entry Detail Record) for clean transactions with "0." (NOTE: This field is Optional under the *NACHA Operating Rules*, but its use is strongly encouraged);
      ii. Batch cleared transactions and send to the ACH Operator for normal processing and settlement.
   b. For transactions **confirmed** as an OFAC hit:
      i. Cease processing of the entry;
      ii. Notify the Foreign Gateway Operator that the debit entry has been rejected and is in violation of U.S. law;
      iii. Notify OFAC within 10 business days;
      iv. Notify the RDFI that the transaction destined for one of its customers has been rejected, and provide a copy of the transaction.

Under these processing guidelines, there should be no instances in which a Gateway Operator sends an inbound IAT debit in which there is a "1" in the OFAC Screening Indicator. All suspect transactions would either be cleared or processing would cease.

Gateway Operator Procedures for Rebalancing a Batch and File

ACH Operations software would rebalance the batch and file to include revisions to the following fields: Total Debit Entry Dollar Amount in Batch/File, Total Credit Entry Dollar Amount in Batch/File, Entry/Addenda Count and Entry Hash at both the Batch Control and File Control level and possibly the Batch Count and/or Block Count in the File Control Record.

RDFI Responsibilities for Inbound IAT Debit Transactions

An RDFI should recognize that it may receive IAT debits and be prepared in advance to handle the IAT debits. The RDFI for Inbound IAT debits should:

1. Review all incoming IAT debits for OFAC compliance;
   (NOTE: Use of the Gateway Operator Screening Indicator field by the Gateway Operator is optional. An RDFI should not assume a transaction is clean because of the presence of a "0" in the Gateway Operator OFAC Screening Indicator (Field 10, IAT Entry Detail Record), or because of the absence of any indicator in this field. The RDFI should rely on the results of its own investigation.);
2. Post clean transactions normally;
3. Investigate any suspect IAT debits:
   a. For a suspect transaction **cleared** by an investigation, post normally;
   b. For a suspect transaction **confirmed** as an OFAC hit – contact OFAC directly. The Gateway Operator may have missed this transaction or the OFAC list may have been revised. OFAC will handle these situations on a case-by-case basis.

Under these processing guidelines, there should be no instances in which an RDFI receives an inbound IAT debit in which there is a "1" in the OFAC Screening Indicator. This does not relieve the RDFI of its obligation to screen the IAT debits that it receives and report SDN hits to OFAC.

If an RDFI receives notification from a Gateway Operator than an inbound IAT debit destined for one of its accounts has been rejected due to the presence of a blocked party (as described in Gateway Operator Responsibilities, section 5(b)(iv)), the RDFI should take appropriate due diligence measures.

DEBIT BLOCKS AND FILTERS

A number of financial institutions currently offer a debit block service to their corporate customers. For an IAT debit that is not in violation of an OFAC sanctions program, an IAT debit processed against an account with a debit block may be returned as unauthorized as with any other debit transaction. For an IAT debit that is in violation of an OFAC sanctions program, contact OFAC directly before the debit is returned. OFAC has indicated that it wants to address this issue on a case-by-case basis.

Remember: Any entry that is identified as a potential hit against the SDN list must be handled as an exception item, requiring investigation and closer examination by the RDFI. Such transactions may not be automatically returned by the RDFI.