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The Magazine for Career-Minded Professionals in the Anti-Money Laundering Field

## IAT – OFAC requirements and AML transaction monitoring implications

For the uninitiated, IAT (International ACH Transaction) is the new Standard Entry Class Code for ACH payments to identify international transactions, which are those payments that have been funded internationally or are being sent to another country, and a part of the transaction will be processed via the ACH network.

As of September 18, 2009, the following information is required to be included in the IAT file format:

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

International ACH Transactions that do not contain this information will not be processed by ACH operators.

### OFAC requirements

The IAT identification requirements were developed in response to a request from the U.S. Treasury's Office of Foreign Assets Control (OFAC). OFAC acknowledged that there were transactions flowing through the ACH network that were funded by international sources. These transactions were not being identified as international transactions within the network, and were getting formatted as domestic transactions.

OFAC had requested that National Automated Clearing House Association (NACHA) modify its operating rules to adequately identify international transactions, and have the banks review these international transactions for OFAC compliance.

Financial Institutions, originating and receiving, thus worked with their software vendor(s) and/or updated their software to be compliant with the IAT requirements. Though the mandate is only for OFAC compliance and therefore, most of the

focus was on implementing IAT's OFAC requirements before the deadline. The IT and compliance departments of financial Institutions should consider the implications of the availability of the additional information due to the IAT specifications on AML transaction monitoring.


### AML transaction monitoring

Financial Institutions will be best served to check with their vendors on how the IAT will be processed by their core banking system(s) so that the additional information available are not lost in transition. It should be ensured that this additional information regarding the originator, beneficiary, originating bank, receiving bank and intermediary bank on the IATs makes it to the core banking system. The core-banking to AML transaction monitoring system interface/mapping should be revisited and revised to facilitate the flow of this additional information into the AML transaction monitoring system.

Financial Institutions should plan to consider the following to demonstrate a more robust and comprehensive monitoring process while utilizing the additional IAT information:

- Ability to identify IAT by unique transaction code enhances the granularity of AML transaction monitoring
- Know Your Customer (KYC) procedures for customer on-boarding can take expected incoming and outgoing IAT volumes into consideration.
- Current and on-going Customer Risk Classification can consider IAT activity as an independent risk factor or consider it along with wires/international wires/ACH.
- The following categories of BSA monitoring rules, typically considered for wire transactions can be reviewed to consider the IAT transactions:
  1. High-Risk Country Rules
  2. Multiple Jurisdiction Rules
  3. Large Amount Transactions
  4. Single Originator to Multiple Beneficiaries

5. Multiple Originators to Single Beneficiary
6. Same Originator and Beneficiary
7. Velocity Rules
8. Repetitive transactions/ Volume Rules

With the ACH volumes increasing steadily on a year-to-year basis and the IAT volumes also widely expected to follow similar trends, it would be prudent for financial institutions to ensure that their implementation for IAT is comprehensive, not only in meeting the OFAC requirements, but also positioning them to perform more effective AML transaction monitoring. 

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