

ACH Update 2009

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Agenda

- ▶ IAT
- ▶ NOC
- ▶ Same Day ACH
- ▶ Other News
- ▶ Q & A Session



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IAT

- ▶ International ACH Transaction
- ▶ September 18th is only a week away! - Are you ready?
- ▶ What is an IAT?
- ▶ An ACH debit or credit entry that is part of a payment transaction originating from or transmitted to an office of a financial agency located outside the U.S.
- ▶ Replaces current CBR / PBR SEC Codes
- ▶ The most significant change to the ACH Network in recent history

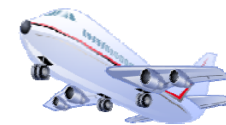


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Why is NACHA doing this?

- ▶ OFAC approached NACHA in 2004 to discuss the inability for cross-border ACH transactions to be properly screened and the two agencies started working together on the proposed rule change for international ACH transactions
- ▶ It was determined that additional information was needed to permit an adequate degree of scrutiny of transactions for OFAC compliance
- ▶ IAT adds requirements to comply with the BSA “Travel Rule” by adding data which will allow for the identification of all parties to the transaction





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What are the Required Fields?

- ▶ IAT further adds requirements to better define an international ACH transaction, which may include items currently considered domestic

Name and physical address of Originator

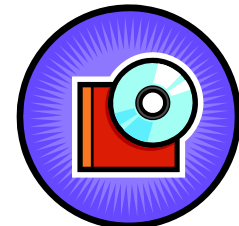
Name and physical address of Receiver

Receiver account number

Receiver bank identity

Foreign Correspondent Bank ID, Branch Country Code

Reason for payment





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Can you give me an example of an IAT?

IAT Example #1:

- ▶ Mary retires from Ray's Radiator and has an automatic ACH payment to her account at Big Cash Bank in Los Angeles, CA
- ▶ Normally, this would be a clear-cut domestic ACH item
- ▶ After reviewing their records and seeing Mary's foreign address, it is found that Mary lives in Canada and has instructions with Big Cash Bank to wire those funds to her bank in Canada
- ▶ Conclusion: Because there are further credit instructions to send the funds to another country, this would fall under the category of an IAT
- ▶ To ensure compliance, Ray's Radiator should review receivers of ACH transactions and locate any with foreign addresses. If the receiver of an ACH transaction has a foreign address, Ray's Radiator should contact that receiver to determine if funds will be handled in any way by a financial agency outside of the U.S.
- ▶ If Ray's Radiator had determined that Mary leaves the funds in her account at Big Cash Bank and accesses those funds as needed directly from that account, then this would not be considered an IAT. This would be a simple PPD credit and not require any further changes.



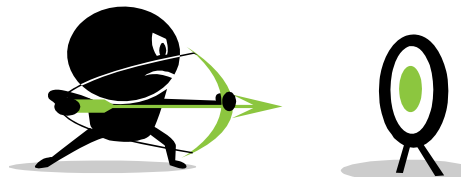
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How about another?

IAT Example #2

- ▶ Mercedes-Benz corporate offices in Germany wires funds to ABC Bank to fund payroll for a plant in Minnesota.
- ▶ The plant in Minnesota uses ABC Bank's ACH Services to create ACH transactions to pay its employees.
- ▶ In the current environment, these would be considered Domestic ACH transactions.
- ▶ Conclusion: Under the new rule, because the funds originated from Germany, the plant in Minnesota must send these payroll items using the IAT Standard Entry Class Code with all of the required data.





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What should I be doing as a financial institution?

- ▶ Have you sent out Customer Letters?

This will save you

No automated tracking

- ▶ How about IAT file format requirements?
- ▶ Made other tools available?
- ▶ More information:

www.nacha.org

Corporate Toolkit



Click Here



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What about me as a Corporate Customer?

- ▶ Check databases used for ACH payments

(Debits and Credits)

When in doubt – Send in IAT format

If your bank is fined – they may pass it on to you!

- ▶ I don't use ACH or have any International affiliations, so this doesn't apply to me . . . Right?
- ▶ **WRONG!**
- ▶ What about your trading partners?
- ▶ Business partners may send ACH transactions to you in IAT format.
- ▶ Are you downloading ACH data from Addenda Records?



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Let's talk about NOCs



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NOC

- ▶ What does NOC stand for?
- ▶ “No One Cares!”

Notice of Change

- ▶ Notice which informs an originator that information has changed or needs to be corrected before sending items to a receiving participant.





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Typical NOC Scenario

- ▶ Corporate Customer (Originator) sends payroll to an employee's account at XYZ Bank (RDFI).
- ▶ The account number is invalid due to a transposition.
- ▶ XYZ Bank recognizes the customer, fixes and posts the payroll credit.
- ▶ XYZ Bank sends an NOC to Corporate Customer's Bank (ODFI), who then passes the information to the Corporate Customer.
- ▶ Corporate Customer ignores NOC, or doesn't know what to do with the information.
- ▶ Corporate Customer sends same transaction two weeks later without making corrections.
- ▶ XYZ Bank files Rules Violation against the ODFI.



RDFI sends notice to ODFI that account information has changed.



ODFI forwards information to originator.



Originator does not know what to do with the notice.





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New NOC Scenario

- ▶ Originator sends payroll to an employee at XYZ Bank, but the account number is invalid due to a transposition.
- ▶ Receiving FI sends NOC to ODFI, which passes the information to the originator.
- ▶ Originator ignores NOC, or doesn't know what to do with the information.
- ▶ Originator sends same transaction two weeks later without making corrections.

Isn't this the same as the previous example?

Here's what's different:

- ▶ System recognizes invalid item based on the previously received NOC and swaps bad information with corrected data.
- ▶ Item is sent with corrected data, posts at RDFI and no ACH rules are broken.
- ▶ System sends a 'tick' to a billing file to charge originator for violating ACH rules.



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Same Day ACH?



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Same Day ACH

- ▶ Announced February 2009
- ▶ Anticipated availability – Mid 2010
- ▶ Similar to Image Exchange (Check 21)
 - Multiple Processing Windows
- ▶ Limited to Consumer Check Conversion, WEB and TEL
- ▶ Generally consumer debits – Credits may come at a later date
- ▶ Financial Institutions must Opt-In to the service





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What is NACHA's Involvement?

- ▶ NACHA is working on a different scenario which would modify ACH Rules.
- ▶ Federal Reserve states this is not an ACH Rules Change, and is only increasing the number of processing windows and settlement times.
- ▶ Some financial institutions are doing this already with direct agreements, referred to as Bilateral Exchanges.
- ▶ Benefits
 - Increases Risk Management Efforts
 - Expedite Returns
- ▶ Drivers:
 - Consumer Check Conversion
 - Cash Concentration
 - Online Banking / Bill Payment





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Other ACH News

- ▶ 2011 – ACH Rules Online – Free?
- ▶ Mobile Banking On the Rise
- ▶ NACHA's Rules Simplification Project



Are you a WesPay Member?

- ▶ Free Quarterly Member Update

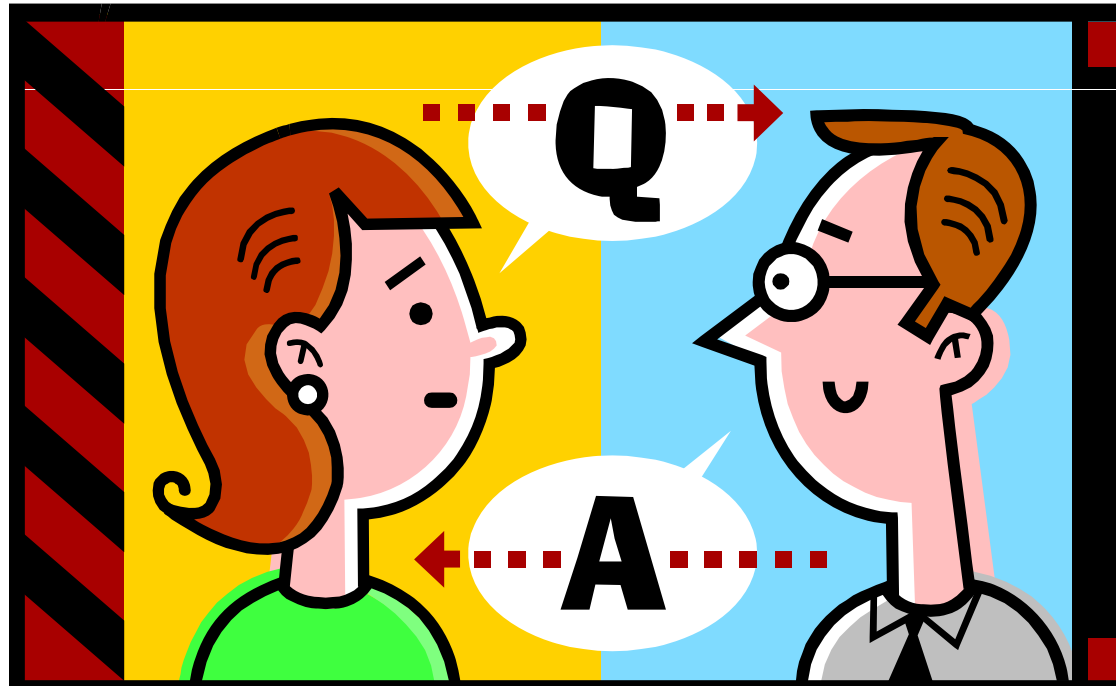
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- ▶ Q & A Session





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THANK
YOU