



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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NOV - 9 2004

Mr. Elliott McEntee
President and CEO
NACHA -- The Electronic Payments Association
13665 Dulles Technology Drive, Suite 300
Herndon, Virginia 20171

Dear Mr. McEntee:

This letter is a follow-up and clarification to our letter of March 9, 2004, and a follow-up to NACHA's productive teleconference with OFAC staff on August 10, 2004 concerning changes to cross-border Standard Entry Class (SEC) codes that are needed to safeguard our financial system from terrorist and other potential sanctions abuses in international Automated Clearing House (ACH) transactions.

The services provided by the ACH community are invaluable. The sheer volume of transactions that move through the system on a daily basis indicates how vital ACH is in assisting businesses, financial institutions, and consumers to conduct business in a timely and efficient manner. From our perspective, however, that speed and efficiency also makes ACH vulnerable to abuse with respect to the international cross-border movement of funds.

As you know, Treasury believes that cross-border ACH transactions currently do not contain sufficient mandatory field information to permit an adequate degree of scrutiny of transactions for OFAC compliance. Based on discussions with your office, we understand that NACHA's rulemaking process intends to address this issue promptly, and is actively considering the adoption of a U.S. cross-border standard and formatting requirements that will include the name, address, and account number of each originator (and its client if the transfer is not from the originator's account); the name, address, and account number of each beneficiary; information sufficient to identify originating, intermediary, and beneficiary banks; and originator to beneficiary information (OBI) field specs identifying the purpose of each transaction. Such a standard would go a long way toward enhancing the ability

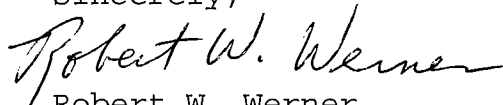
to effectively screen ACH transactions for potential OFAC violations.

Treasury is pleased to be able to report to the ACH community that the Federal Reserve Banks, through their FedACH service, and in their role as United States Gateway Operator, have agreed to use interdiction software to flag incoming international ACH transactions for potential violations of OFAC sanctions. The screening will include scanning all parties to every transaction, as well as data contained in originator-to-beneficiary information and details of payment fields. FedACH will inform, by virtue of an indicator in cross-border messages or another similar mechanism, both OFAC and relevant Receiving Depository Financial Institutions (RDFIs) of any instances in which potential OFAC violations are detected. United States RDFIs and their beneficiaries will continue to have an obligation to ensure that all aspects of inbound, cross-border transactions are in compliance with OFAC regulations and to take appropriate steps to investigate, suspend, reject, block, and report on transactions, as necessary.

With regard to outbound cross-border ACH transactions, United States Originating Depository Financial Institutions (ODFIs) and their originators will continue to be responsible for ensuring that all parties to transactions, as well as the underlying purpose of transactions, are not in violation of OFAC regulations, and they will need to take appropriate steps to investigate, suspend, reject, block, and report on transactions, as necessary. FedACH will not be screening outbound transactions.

We look forward to working closely with NACHA and with the Federal Reserve System to implement improved standards and procedures appropriate to the year 2005 and beyond. Please do not hesitate to contact me, at 202-622-2510, or my Compliance staff at 202-622-2490 if you have any questions.

Sincerely,



Robert W. Werner

Director

Office of Foreign Assets Control