



ACH Operations Bulletin

IAT Processing and the “Effect of Illegality”

September 20, 2010

EXECUTIVE SUMMARY

This ACH Operations Bulletin provides guidance to Participating DFIs on their obligations for the timely processing of International ACH Transactions (IAT), and the application of the rule provision on the “Effect of Illegality.”¹

IAT PROCESSING AND THE EFFECT OF ILLEGALITY

A Participating DFI must process each IAT entry in accordance with all requirements of the *NACHA Operating Rules*. A DFI is excused from its compliance with specific obligations under the *Rules* only when the processing of an IAT entry would cause the DFI to be in violation of U.S. law. The DFI must, therefore, comply with its obligations under the *Rules* unless it identifies an IAT as a suspect transaction. For domestic RDFIs that receive inbound IATs, these obligations include the timely provision of funds and the timely transmission of returns.

A suspect transaction, for purposes of OFAC compliance², is one that potentially involves or relates to a “specially designated national” (SDN) or “blocked party,” and requires more detailed examination by the Participating DFI to determine whether the entry violates OFAC sanctions. For these suspect entries only, the *Rules*, through the effect of illegality provision, excuse the Participating DFI from its obligations to comply with any provision of the *Rules*, such as crediting or debiting an account, if such compliance is inconsistent with U.S. law.

Since the IAT application was implemented in September 2009, NACHA has received reports that some domestic RDFIs have liberally applied the provision on the effect of illegality. In these cases, RDFIs have assumed that, solely because these entries are coded as IATs (and not because they are suspect transactions), they do not have to meet the timing requirements of the *Rules* for funds availability or returns. This is inconsistent with the requirements of the *Rules* and, as with any other infraction of the *Rules*, can subject the DFI to enforcement action through the National System of Fines.

¹ 2010 *NACHA Operating Rules*, Subsection 1.2.6 (effective January 1, 2011 this provision will be found in the 2011 *NACHA Operating Rules* as Subsection 1.2.1).

² This ACH Operations Bulletin is for information purposes only, and is not intended to provide legal advice. Readers should seek advice from legal advisors with regard to their obligations under programs administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control.

ADDITIONAL INFORMATION AND RESOURCES

NACHA IAT Resources

<http://www.nacha.org/c/IATIndustryInformation.cfm>

Office of Foreign Assets Control (OFAC)

<http://www.treas.gov/offices/enforcement/ofac/>

FedACH IAT Resource Center

http://www.frbervices.org/eventseducation/education/fedach_iat_resource_center.html

Electronic Payments Network

<http://www.epaynetwork.com/home.php>

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